2007/2008 : Report 7

OFFICE OF THE

# Auditor General of British Columbia

# Improving Financial Reporting for British Columbians:

## *Report on the 2006/07 Public Accounts*

March 2008

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2007/2008 Report 7: Improving Financial Reporting for British Columbians: Report on the 2006/07 Public Accounts.

John Doyle
*Auditor General of British Columbia*

Victoria, British Columbia
March 2008

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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# Acknowledgements

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This report is based on the result of audit work done mainly between August 2006 and July 2007 by about 70 staff and contractors of the Office of the Auditor General of British Columbia, and by many private sector accounting firms that took part in the audit of the Summary Financial Statements and in audits of all government organizations that are included in the government reporting entity.

We received full cooperation in our audit from government's staff.

# Auditor General's Comments

John Doyle
*Auditor General*

The audit opinion I provide for the Province's Summary Financial Statements is the primary output of my Office. All of the work my staff and others carry out in financial statement audits across the government reporting entity, as well as for central government, culminates in this overall opinion on government's consolidated financial statements.

A secondary output from the audit opinion is this report, where the key matters affecting the quality of government's financial reporting are laid out, as well as recommendations I believe will further improve their quality.

Looking ahead to the future of financial reporting and the role of my Office, several themes emerge. As my predecessors have mentioned, accounting and auditing standards have been changing. This will continue to be the case, with major changes coming from the adoption of international standards, which will significantly impact the look and the feel of financial reporting across the country—which will be a big challenge for the public sector based on my experience—and the amount of work required to issue an audit opinion. This has already occurred in many countries and is due in Canada over the next few years.

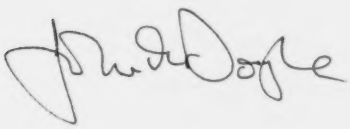
My Office will continue to move with the times and will proactively prepare for and discuss these changes with government which, like any significant change, will require extra work, time and commitment that will impact my audit office as well as staff within ministries and Crown agencies.

Looking ahead in my term as Auditor General, there are several focus areas related to the quality of financial reporting I intend to examine and report on. Governance processes and practices, as well as financial management and controls are important to review to ensure they are operating as intended. Legislators and the public have a right to know how well government is carrying out its stewardship role over the public's resources. I plan to have a higher profile for my Office in the government reporting entity and will carry out a number of assessments within organizations as well as cross sector work in areas such as governance, internal audit, and budgeting and forecasting.

Government also has a large number of IT systems in use or planned in the public sector. In many cases the effective utilization of these systems are integral to successful program outcomes. I intend to have a focus on a number of those systems, and in doing so, I will be increasing the resources devoted to this area.

As I discuss more fully in the report, coming to grips with an array of complex financial transactions government has entered into, such as private-public partnerships, has been an ongoing challenge. Given the increased popularity and long-term nature of these significant financial commitments, I intend to continue to keep a focus in this area, which will include several in-depth assessments.

In summary, I wish to thank all those in my Office and those inside and outside government who assisted in the audit of British Columbia's 2006/07 Summary Financial Statements.



*John Doyle*
*Auditor General*

*Victoria, British Columbia*
*March 2008*

# Detailed Report

# Key Points

The Public Accounts is the main publication used by government to report annually on its financial performance. The Auditor General provides an audit opinion on the Summary Financial Statements included in the Public Accounts. This is the most significant portion of work within the Office's mandate.

One of the by-products of our audit is this report, which we have produced for a number of years. Our aim is to comment on, and assist government in meeting its stated commitment to improving the quality of its financial reporting. We do this by noting the improvements it made from the year before, as well as by suggesting where changes would further enhance the quality of its financial reporting. We also make note of future changes in accounting standards that we believe will affect the Public Accounts.

All of the items we discuss in this report are significant enough to be brought to government's attention in the interests of improving the quality of its financial reporting. However there are 5 items in particular that we see as key ones affecting the quality of financial reporting, including two (treaty costs and resource roads) that need to be resolved in terms of accounting treatment and measurement. We are hopeful they can be resolved and will continue to monitor government's progress for possible implications on our 2007/08 audit of the Summary Financial Statements.

## Summary of Key Points

| Key Point | Page no. |
|---|---|
| Contractual obligations disclosure | 15 |
| Public-private partnership accounting | 29 |
| Resource roads accounting | 30 |
| Government transfers accounting | 37 |
| Treaty accommodation and settlement costs | 41 |

# Background

## Introduction

As an independent Office of the Legislature, we report on, and provide recommendations to improve, government's financial management and accountability practices. Our annual audit of the Summary Financial Statements of the Province of British Columbia is a significant and ongoing focus of our Office because these statements are a major means by which government accounts for its financial performance.

The audited Summary Financial Statements are included in the Public Accounts published by government (and are also available online at www.fin.gov.bc.ca/ocg/pa/06_07/pa06_07.htm). The Public Accounts also includes unaudited information, such as management's discussion and analysis of the financial results, and information about the Consolidated Revenue Fund.

We conduct our audit to assess whether or not the statements present fairly both the financial position of the Province and the results of its operations, and we then report our findings to legislators and citizens of the province. And that is what we did, when we issued our audit opinion, which was published by government in July 2007 as part of its financial statements.

## How do we know what are best practices?

Because many government transactions are complex, it is important that the accounting policies chosen to record and report them are the best ones for making the financial information understandable and conveying what actually happened. Accounting and reporting standards exist specifically for the public sector, but it often requires significant analysis and professional judgement to decide which are most appropriate for a given situation.

In Canada, accounting standards for governments are issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Further guidance exists in the accounting standards issued by the Accounting Standards Board of the CICA for publicly traded and privately owned companies. These standards are referred to as Canadian generally accepted accounting principles (GAAP). In British Columbia, the Budget

Transparency and Accountability Act requires government to follow GAAP in the preparation of its Summary Financial Statements.

In situations not covered by Canadian GAAP, guidance on appropriate accounting policies can be obtained from standards issued by bodies empowered to do so in other jurisdictions.[1] However, when a Canadian jurisdiction looks to other sources of GAAP, it must be sure to choose policies that are consistent with this country's GAAP, including PSAB and its conceptual framework for accounting standards.

According to PSAB, the accounting policies chosen should result in financial statements that:

- provide an accounting of the full nature and extent of the financial affairs and resources that government controls, including those related to the activities of its agencies and enterprises;
- describe government's financial position in a way that is useful for evaluating government's ability to finance its activities, meet its liabilities and commitments, and provide future services;
- describe the changes in government's financial position, showing the sources, allocation and consumption of government's resources, how government's activities affected its net debt, and how government financed its activities; and
- demonstrate the accountability of government for the resources, obligations and financial affairs for which it is responsible.

Government is obligated to ensure that its financial statements properly present the operating results and financial position of the whole of government. Adopting best practices in financial accounting and reporting helps government fulfill this important responsibility effectively.

[1] Examples include the Government Accounting Standards Board and Financial Accounting Standards Board in the U.S., as well as the International Accounting Standards Board.

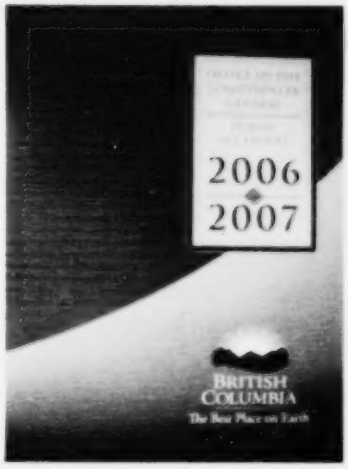
# Improved Presentation and Other Accounting Changes

Each year, government steadily improves its presentation of the Public Accounts. As well, it makes changes to its accounting policies in response to new standards and to evolving organizational circumstances that require a different accounting treatment.

In this section, we discuss the most significant improvements and changes government made in last year's Public Accounts report, and we outline our recommendations for further improvements.

## Government's analysis and discussion of its financial results and condition continues to improve, but more disclosure of risks, uncertainties and long-term trends is needed

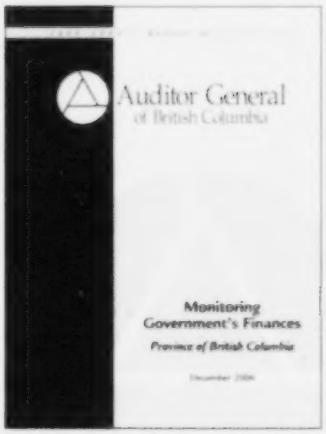
As already noted, the Public Accounts is the key financial report that Canadian governments use to report on their financial results, position and condition. The Public Accounts must include not only audited summary level or consolidated financial statements, but also a full explanation of the state of their finances and describe financial performance for a general audience. However, because the Summary Financial Statements cannot meet the needs of all intended readers and users, governments must provide additional information to better explain their financial accountability and performance.




*The Public Accounts is the primary financial report that Canadian governments use to report on their finances.*

For the past six years we have published a report titled *Monitoring Government's Finances* (www.bcauditor.com/) to provide legislators and the public with a clearer analysis and discussion of government's finances and financial performance. We published our first one in February 2002 (commenting on the 2000/01 fiscal year). At that time, there was little guidance on the form and content of this type of public sector reporting.

# Improved Presentation and Other Accounting Changes




*We have published an annual report on government's finances, partly to fill a need we saw for clearer discussion and analysis.*

The *Monitoring Government's Finances* report made note of important trends and events that helped explain government's finances and answered the simple question, "How are we doing?"

Since our first report in 2002, we have seen steady improvement in government's reporting on its financial performance outside of the Summary Financial Statements. In the financial statement discussion and analysis (FSD&A) section that precedes the Summary Financial Statements (see Appendix C), government has expanded the discussion of its financial performance since it started this practice in 2004. Furthermore, the *Financial and Economic Review*, an annual government report separate from but published around the time of the Public Accounts, has also made advances in its chapter on financial performance (see www.fin.gov.bc.ca/tbs/F&Ereview07.pdf).

As a result of this progress, we no longer believe that our Office needs to publish a separate report on government's finances.

Nevertheless, we do offer several recommendations that we believe would result in further improvements. These recommendations are summarized at the end of this section (Exhibit 1).

## Recommended content for discussing governments' finances

In 2004, PSAB published a Statement of Recommended Practice (SORP-1). Although not part of GAAP, such statements offer guidance to encourage governments to improve their financial reporting. This statement, SORP-1, outlines the preferred FSD&A content for governments and why this information is important to compile for readers. It calls for an FSD&A that, in addition to calling for particular disclosures with a defined framework, includes:

- qualitative characteristics[2] such as understandability, relevance, reliability and comparability;
- a summary of the significant events that affect the financial statements;

[2] Readers may be interested in reviewing SORP-2 Public Performance Reporting issued by PSAB in September 2006. It offers guidance for preparing performance information for government annual reports. It complements the guidance on qualitative characteristics embodied in SORP-1. There is also considerable similarity between the principles in SORP-2 and the BC Reporting Principles endorsed in November 2003 by government, the Select Standing Committee on Public Accounts, and the Auditor General.

- an analysis of risks and a discussion of the strategies, policies and techniques adopted to manage them;
- a description of the variances to the Budget and to the prior year; and
- a trend analysis of the major financial statement components.

This type of discussion and analysis has been provided by public companies to stakeholders for many years, and the FSD&A guidance offered by PSAB is crafted on the notion that providing such an analysis helps readers better understand the matters that affect the financial results, position and condition of government.

Although the British Columbia government meets a number of the recommended practices for financial reporting in its FSD&A, we found there are still reporting gaps, although some of these are met in government's *Financial and Economic Review*.

## Indicators of financial condition

In 1997, the CICA published a research report titled *Indicators of Government Financial Condition*. The indicators describe key relationships, ratios and trends intended to assist legislators, decision-makers and the public in evaluating the financial trade-offs related to policy decisions, and in better understanding the overall financial condition of government.

As well, the indicators help financial statement users monitor the financial condition of the federal and provincial governments in terms of three main concepts:

**Sustainability** — the ability of a government to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. In other words: Can government continue to raise revenue in order to spend the way it does now?

**Flexibility** — the degree to which a government can increase financial resources to respond to rising commitments by either expanding its revenues or by increasing its debt burden. In other words: If government were to increase its spending, how much room is there in the provincial economy for it to pay for the spending by increasing either taxes or debt?

**CICA Key Indicators of Government Financial Condition**

**Sustainability indicators:**

1. Net liabilities to gross domestic product
2. Change in net liabilities to gross domestic product

**Flexibility indicators:**

3. Public debt charges to revenue
4. Changes in physical capital stock
5. Own-source revenue to GDP

**Vulnerability indicators:**

6. Government-to-government transfers to own-source revenue
7. Foreign currency debt to total government debt

**Vulnerability** — the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence. In other words: Does government rely too much on revenue from the federal government — revenue that it is unable to control from year to year? Generally, a province can control its taxation policies, but it cannot directly control the annual transfer of funds from the federal government.

In past *Monitoring Government's Finances* reports, we have reported on seven key indicators of financial condition (see sidebar), showing trends going back to 1997. Although it encourages us to see that government is now using most of these indicators of financial condition in the FSD&A of the Public Accounts, most of the long-term trends are still reported in its *Financial and Economic Review*.

## Financial condition indicators are under review

In September 2006, PSAB initiated a project to update and build on the work done in the 1997 CICA research study. There were several reasons for doing this — most notable, the need to stay current with accrual accounting adopted over the previous decade across the country and the need to bring in guidance for local governments.

The objective of the project is to issue a new Statement of Recommended Practice with recommended guidance, for each level of government, on the reporting of indicators of financial condition. Government officials from all levels, various stakeholder groups and legislative auditors will have an opportunity to comment on and provide input to the new guidance, which is scheduled to be in place in late 2008. One area of guidance will pertain to comparability of indicators between jurisdictions, which the British Columbia government has commented on in several of its responses to our *Monitoring Government's Finances* reports.

## Government's latest FSD&A

Government's FSD&A in the 2006/07 Public Accounts is an improvement over that in last year's, but it does not yet incorporate all the recommendations of our past *Monitoring Government's Finances* reports. However, government has committed to either adopting our outstanding recommendations or reviewing them in the future.

With respect to those recommendations:

- Although the FSD&A in the Public Accounts now contains four years of trend information, the financial review section in the *Financial and Economic Review* contains financial information for the past nine years (and longer in some cases). We have been recommending that some of this information would be better placed in the FSD&A because readers need this context and are not likely to look further for it in another publication.

  Government's response has been that it does not wish to publish financial trends in the FSD&A from before 2004/05 (when the Summary Financial Statements were first published under legislated GAAP). Nevertheless, we continue to believe that our recommendation for longer-term trend information in the FSD&A is valid.

- Neither the FSD&A nor the *Financial and Economic Review* refers to the other. We recommended that if government does not yet wish to publish long-term trends in its FSD&A, it at least ensure the two documents reference each other and include location information.

- In *Monitoring Government's Finances* last year, we recommended that government include more risk analysis and discussion in its FSD&A. Although we found that risks are discussed in several of the 2006/07 FSD&A sections and summarized in a small back section called "Risks and Uncertainties," we did not find sufficient discussion of government's plans and strategies for managing uncertainty. We believe that a full discussion of how well key risks were managed is essential to enable readers to assess and understand government's current and future financial vulnerabilities.

- Disclosure needs to be further expanded to discuss in more detail the relationship between the budgeting and reporting processes and how government is managing its key financial risks and uncertainties. For example, in its quarterly financial reports, government provides considerable analysis and discussion of financial performance relative to the budget, as well as of inherent risks and uncertainties. There is no equivalent discussion in the FSD&A—although, as noted above, the *Financial and Economic Review* covers some of this.

Exhibit 1 shows the status of the recommendations from our last *Monitoring Government's Finances* report, as well a new one.

Exhibit 1

Status of recommendations related to government's financial statement discussion and analysis

| Prior Year Recommendations | Government's Response and Status Update | Recommendation Status or New Recommendation |
|---|---|---|
| 1. *We recommend that government present a long-term trend analysis in the financial statement discussion and analysis (FSD&A) so that it can provide more context for discussing government's financial performance.* | *"Additional years of trend analysis will be added as information becomes available and is audited by the Auditor General."*<br><br>***Update:***<br>*Government included a fourth year of trend information in the 2006/07 Public Accounts.* | ***Not met.** We continue to recommend long-term trend analysis in government's FSD&A.*<br><br>***New recommendation:***<br>*Government should cross- reference between the FSD&A and its Financial and Economic Review.* |
| 2. *We recommend that government expand its FSD&A to better cover material financial risks and uncertainties and the challenges involved in their ongoing management.* | *"We agree that disclosure of risks and uncertainties is important to the users of financial statements and are once again committed to leading senior governments in Canada by developing relevant disclosure to help the users of our financial statements understand the context of the province's financial plans and results."*<br><br>***Update:***<br>*Some additional information was provided in the 2006/07 FSD&A.* | ***Partially met.** Although progress was made, we continue to encourage government to expand its disclosure in this area.* |

| Prior Year Recommendations | Government's Response and Status Update | Recommendation Status or New Recommendation |
|---|---|---|
| 3. *We recommend that government include all relevant indicators of financial condition in its FSD&A, shown over an extended period to supplement the existing discussion and analysis.* | *"Currently the government provides this information in other documents such as the Financial and Economic Review. As our financial reporting in the Public Accounts continues to evolve in step with emerging best practices in Canada, we will continue to evaluate all relevant information, including indicators of financial condition in the FSD&A in a way that provides a comprehensive and accessible picture to the users of our financial statements."*<br><br>***Update:***<br>*New indicators were added to the 2006/07 FSD&A.* | ***Fully met.*** *All key indicators are now included in government's FSD&A.* |
| 4. *We recommend that government adopt the use of the CICA-recommended measure of "government-to-government transfers to own-source revenue" for use in the FSD&A.* | *"The government used a very similar measure called government-to- government transfers to total revenue; while the calculation of the ratio differs slightly (from the CICA recommendation) the result remains the same.*<br><br>*Deciding to change the way this indicator is calculated requires weighing the benefit of continuing to report on a basis consistent with prior years, against the benefit of reporting on a basis that will be consistent with other jurisdictions when they adopt the same recommendations in their financial statements. We will monitor the reporting of other jurisdictions as well as review any new guidance to determine which of these indicators would be appropriate for the next Public Accounts."*<br><br>***Update:***<br>*Government continued using total revenue in the ratio in its 2006/07 FSD&A.* | ***Not met.*** *Using total revenue includes government transfers, which understates the degree of vulnerability.*<br><br>*We continue to recommend own-source revenue, as it shows a more concise picture of vulnerability to revenue sources beyond government's control.* |

## Government should disclose more details of its contractual obligations

Beginning with the 2005/06 Summary Financial Statements, government has been increasing the disclosure of its contractual obligations. A contractual obligation is a legally binding commitment government enters into, requiring it to make payments in future years. Examples are leases of buildings and equipment, contracts for services such as payroll, and various P3 (public-private partnership) agreements government has entered into. Under GAAP, disclosure must now be made of contractual obligations that are significant in relation to government's current financial position or future operations.

The provincial government determined that obligations over $50 million would be deemed significant. We accepted this, although we are concerned that a sizeable amount could go unreported if a large number of entities had obligations close to, but less than, the $50 million threshold.

In a note to the financial statements, government now discloses its total obligations for each of the next five years, an amount for periods beyond that, and the grand total.[3] It also improved and expanded its 2006/07 disclosure by showing the contractual obligations of government business enterprises separately.

We believe this disclosure could be improved further by segregating the obligations related to capital expenditures from those for operating expenditures and adding descriptions of their nature. This would help readers understand the types of obligations that government is committed to. As well, separating capital from operating commitments makes it easier to assess their respective impacts in future years. Approximately $3 billion of the $55 billion disclosed as at March 31, 2007, relates to capital expenditures.

Exhibit 2 is an example of the type of disclosure we feel would be more useful than what is currently shown in the Summary Financial Statements.

***Recommendation 4***

*We recommend that government disclose contractual obligations for operating expenditures and capital expenditures separately on a comparative basis, and include a summary description of the nature of the expenditures.*

[3] Note 25(d) on page 64 of the Public Accounts.

## Exhibit 2

Sample pro forma contractual obligations note, segregating capital and operating amounts, and including a column showing prior year totals.

**In $ Millions**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 and beyond | Total as at March 31, 2007 | Total as at March 31, 2006 |
|---|---|---|---|---|---|---|---|---|
| **Operating** | | | | | | | | |
| **Taxpayer-supported Crown corporations and agencies** | | | | | | | | |
| Health | 983 | 615 | 572 | 553 | 560 | 2,197 | 5,480 | 1,218 |
| Social services | 272 | 17 | 5 | 1 | – | – | 295 | 295 |
| Other | 87 | 97 | 87 | 70 | 53 | 247 | 641 | 558 |
| Natural resources and economic development | 19 | 22 | 73 | 11 | 11 | 196 | 332 | 311 |
| Protection of persons and property | 272 | 265 | 265 | 264 | 264 | – | 1,330 | 1,544 |
| Transportation | 504 | 509 | 571 | 586 | 594 | 10,619 | 13,382 | 11,711 |
| General government | 396 | 380 | 221 | 199 | 176 | 337 | 1,708 | 646 |
| | 2,532 | 1,904 | 1,793 | 1,684 | 1,659 | 13,596 | 23,169 | 16,344 |
| **Self-supported Crown corporations and agencies** | | | | | | | | |
| Natural resources and economic development | 1,852 | 1,136 | 1,132 | 1,304 | 1,403 | 22,268 | 29,095 | 14,587 |
| General government | 53 | 41 | 30 | 19 | 8 | 28 | 179 | |
| | 1,905 | 1,177 | 1,162 | 1,323 | 1,411 | 22,296 | 29,274 | 14,587 |
| **Total Operating** | 4,437 | 3,081 | 2,955 | 3,007 | 3,070 | 35,892 | 52,443 | 30,931 |
| **Capital** | | | | | | | | |
| **Taxpayer-supported Crown corporations and agencies** | | | | | | | | |
| Education | 200 | 86 | 26 | 11 | 2 | 6 | 331 | 502 |
| Natural resources and economic development | 209 | 39 | 28 | 28 | 28 | 688 | 1,018 | 1,305 |
| Transportation | 379 | 85 | 29 | 20 | 20 | 547 | 1,079 | 1,275 |
| | 787 | 210 | 82 | 59 | 50 | 1,240 | 2,427 | 3,082 |
| **Self-supported Crown corporations and agencies** | | | | | | | | |
| Natural resources and economic development | 175 | 76 | 111 | – | – | – | 362 | |
| **Total Capital** | 962 | 286 | 193 | 59 | 50 | 1,240 | 2,792 | 3,082 |
| **Total Operating and Capital** | 5,400 | 3,367 | 3,148 | 3,066 | 3,119 | 37,132 | 55,233 | 34,012 |

Source: Prepared by the Office of the Auditor General from government prepared working papers.

Sample summary description for operating contractual obligations related to transportation:

Transportation includes significant operating contractual obligations for payments to BC Ferries and payments for road maintenance and the operating portion of P3 agreements for the Sea-to-Sky Highway, the W.R. Bennett Bridge, and the Kicking Horse Canyon Highway Improvement Project.

# Improved Presentation and Other Accounting Changes

## The disclosure of contingent liabilities has been improved

A contingent liability exists when some event has happened, but government will not know until other events occur in the future whether or not it has a liability.

The most common contingent liabilities are lawsuits claiming damages from the government, wherein the plaintiffs are alleging to have suffered losses for which government should pay damages. Since these matters are in dispute, the possible government liability cannot be determined until the point in the future when the lawsuit is settled.

Government classifies lawsuits for financial reporting into two categories: those that are "likely," meaning that government's legal counsel believes there is a high probability of having to pay some damages; and those that are "unlikely or not determinable." For those deemed likely, government determines if it can estimate how much it may have to pay, which could be less than the full amount claimed, even if the plaintiff wins the case.

If government can make reasonable case-by-case estimates of the amounts it is likely to pay, it accrues these amounts as liabilities in its financial statements. It also discloses the amounts claimed in excess of the liability it has accrued, if that is the situation. For those cases where it cannot make reasonable estimates and so does not accrue any liability, it discloses in the financial statements the total amounts claimed.

An overriding principle government follows is that it will not disclose any information that could have an adverse effect on the outcome of a lawsuit.

Historically, the amount claimed has exceeded the amount paid out by quite a wide margin. As a result, we believe that disclosing the full amount claimed has tended to overstate the potential liability.

This year, to make the disclosure more useful, where government could, it disclosed its best estimate of the liability, rather than the amount claimed. The amount disclosed is thus a better indicator of the potential maximum liability than was the case in the past.[1]

[1] Note 25(b) on page 61 of the Public Accounts.

# Improved Presentation and Other Accounting Changes

## Disclosure around the use of estimates has expanded, but government should show more about which financial statement items are affected, and the impact of changes made to prior year estimates

The preparation of most financial statements necessarily involves the use of estimates, and two types of disclosure are recommended—information about the "measurement uncertainty," a phrase used in the accounting profession to describe the inherent imprecision in any estimating process, and information about the impact on the current period of changes in prior year estimates.

### *Measurement Uncertainty*

Starting in fiscal 2005/06, government was required to disclose all significant areas where measurement uncertainty exists and the extent of the uncertainty. Government has defined "significant" to mean where estimated amounts could vary by more than $10 million, and it has disclosed amounts where this is so.[5] For example, because estimates are used to determine revenues from personal income taxes, government disclosed in the 2006/07 Summary Financial Statements that actual revenue could be up to $200 million lower or up to $300 million higher than the amount recorded.

Government has been gathering information from ministries and the organizations that make up the government reporting entity in order to comply with the disclosure requirements. This has put additional demands on both central government and its organizations, as government now discloses more information in its Summary Financial Statements about measurement uncertainty than the organizations do in their own financial statements. Government is still developing the best way to gather the information. Currently, government only requires ministries and organizations to report measurement uncertainty that exceeds $10 million. This means that smaller amounts are unreported, even though the total for a particular item in the financial statements, if all the smaller amounts were added together, could well exceed the $10 million threshold. Government is looking at ways it can identify whether the total of unreported uncertainties is significant.

[5] Note 2 on page 42 of the Public Accounts.

We found that although the nature of the items where measurement uncertainty exists is well described in the Summary Financial Statements, it is often unclear where the items are recorded, which reduces the usefulness of the information to readers. For example, a reader unfamiliar with government finances probably would not realize that the measurement uncertainty item described as "softwood lumber payments" is a transaction included in the revenue line "natural resources."

***Recommendation 5***

*We recommend that government disclose the financial statement lines where the items subject to measurement uncertainty are recorded.*

*Impact of changes made in prior period estimates*

The PSAB handbook says that when change occurs in an estimate made in the previous year, disclosure of the nature and effect on the current period may be desirable if the change is rare or unusual. We believe that government should, as a best practice, disclose such changes.

For example, estimates of economic factors are used to calculate the revenue from personal income taxes (as disclosed in Note 2 on page 42 of the Public Accounts). The effect of updating government's estimates made in prior years, using more current information, resulted in an additional $452 million of revenue in 2007. This is useful information that should be disclosed.

***Recommendation 6***

*We recommend that government disclose details of significant changes in prior year accounting estimates.*

## Comprehensive income is newly included in the statement of operations but not in the annual surplus (deficit) — a change readers may find hard to understand

"Financial Instruments" is a new CICA accounting standard that government business-type organizations and government business enterprises are adopting. It results in a new line item in their financial statements called "other comprehensive income" (OCI)[6].

Government business enterprises (such as BC Hydro and ICBC) and government business partnerships are organizations that carry on a business and are self-supporting. Government "business-type" organizations are taxpayer-supported organizations that carry on a business but do not support themselves from their earnings. Both may include OCI in their financial statements as they are required under GAAP to report on the same basis as the private sector.

OCI is reported on the income statement as a separate item after net income — it is not part of net income. PSAB has determined that governments that consolidate entities which show OCI on their income statement should not report this item as part of their surplus (deficit) for the year on their statement of operations (their equivalent of the "income statement"). Rather, they should do so in the statement that reconciles the change in accumulated surplus or deficit, and in the statement of changes in net debt.

As a result of this PSAB standard, if any government organization is reporting OCI on its statements of operations, then adjustments will have to be made so that this item is not carried through to the Summary Financial Statements and reported as part of the surplus (deficit) for the year. These adjustments will be like the usual ones made during the consolidation process to ensure that the results of all included organizations are prepared using the same accounting policies as government.

[6] "Other comprehensive income" consists of the change in market value of financial assets available for sale (to be distinguished from financial assets held for trading or held to maturity), and changes in the fair values of effective cash flow hedging instruments, and gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation.

Government business enterprises are an exception to this process. They are consolidated using the modified equity method (their net earnings are reported as income of the government, instead of all their revenues, expenses, assets and liabilities being consolidated). Normally, there is no adjustment for different accounting policies that government business enterprises might follow. In this case, however, PSAB specifically requires adjustments to be made for any government business enterprises that have reported OCI.

The financial instruments standard is not mandatory until fiscal 2007/08. However, one government business enterprise, the Insurance Corporation of British Columbia (ICBC), adopted the change in its first quarter results for the period January 1 to March 31, 2007 which are included in the consolidation of the 2006/07 Summary Financial Statements. The effects of OCI reported in ICBC's financial statements is appropriately shown as an adjustment through the accumulated surplus, reconciled on the bottom of the Statement of Operations in the Summary Financial Statements.[7] For 2008/09, more adjustments will be required, as other government business enterprises start reporting under this new standard.

## Because accounting for several business-type university- controlled organizations changed, government needs to provide additional disclosure in the financial statements

Universities in British Columbia follow not-for-profit accounting standards, which vary in some instances from the PSAB standards that government follows. Significant differences in such accounting policies are adjusted to comply with PSAB standards when entities are consolidated on a line-by-line basis in government Summary Financial Statements.[8]

During fiscal 2006/07, universities changed their accounting policy for consolidating the results of some of their controlled entities. To do so, they first had to assess whether the change would result in a more appropriate presentation of events or transactions in their financial statements, as required by the CICA. They concluded it would, taking the position that, because the

[7] See page 34 of the 2006/07 Public Accounts.

[8] See Glossary in Appendix A for an explanation of line-by-line consolidation.

**A government business enterprise is an organization that:**

- is a separate legal entity with the power to contract in its own name and to sue and be sued;
- has the financial and operational authority to carry on a business;
- sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
- can, in the normal course of operations, cover its expenses from those sales.

activities of these entities are not considered core to their mandate, the equity method is more representative of both the relationship and business purpose of these organizations.

In previous years, these controlled entities were line-by-line consolidated by universities. Under the new accounting policy, universities now consolidate them using the equity method.[9] Either method is acceptable under not-for-profit accounting standards, but under PSAB standards, an entity must be line-by-line consolidated unless it meets the definition of a government business enterprise (see sidebar).

If an entity meets the definition of a government business enterprise, it is consolidated on a modified equity basis in government's Summary Financial Statements. (For details of entities consolidated on a modified equity basis, see pages 82 and 83 of the Public Accounts.) PSAB standards on consolidation require government to ensure that accounting policies of governmental units conform to those of government. For this reason, the universities' change in policy required government to assess whether the controlled organizations accounted for by the universities on an equity basis met the definition of a government business enterprise and therefore warranted being accounted for on a modified equity basis in government's financial statements.

Government's review determined that some controlled organizations did not in fact meet the definition because they did not sell goods and services to individuals and organizations outside the government business enterprise as its main activity. To ensure that its financial statements continued to comply with PSAB standards, government thus changed the universities accounting treatment for significant entities of such organizations, to a line-by-line consolidation in the government financial statements.

The universities' change in policy for accounting for their controlled organizations that met the definition of a GBE affected the Summary Financial Statements by decreasing assets by $165 million (2006: $83 million decrease), decreasing liabilities by $165 million (2006: $83 million decrease), decreasing revenue by $14 million (2006: $16 million decrease), and decreasing expense by $14 million (2006: $16 million decrease).

[9] See Glossary in Appendix A for an explanation of the modified equity method of consolidation.

The entities responsible for these effects met the definition of a government business enterprise, but they were not noted in the detailed disclosure on pages 82 and 83 of the Public Accounts as required by PSAB standards.

We also point out that the CICA has recently released the draft of a new standard for changing the accounting followed by not-for-profit organizations (proposed to come into effect on or after January 1, 2009). This new standard would remove the current option of accounting for controlled entities by either the equity method or consolidated on a line-by-line basis, requiring instead that all controlled entities be line-by-line consolidated. If this proposed standard comes into effect, the controlled entities that were changed to equity accounting this past year will have to be changed back again to be line-by-line consolidated for the fiscal year ending March 31, 2010 at the latest.

***Recommendation 7***

*We recommend that, as required by PSAB standards, the university-controlled organizations (and any other organizations) that meet the definition of a government business enterprise and are accounted for on the modified equity basis be disclosed in the government's financial statements—in the Statement of Financial Position for Self-supported Crown Corporations and Agencies and the Summary of Results of Operations and Statement of Equity for Self-supported Crown Corporations and Agencies.*

In addition to the recommendations above that we made concerning government's changes in last year's Public Accounts report, we offer several new recommendations for further improvements.

## Additional capital lease information is needed

Financial reporting standards, including PSAB's, require leased capital property to be accounted for as tangible capital assets and liabilities. Such accounting ensures that government is accountable for all tangible capital assets available for its use. It also ensures that all types of government's long-term financing arrangements of its capital assets are reported in the financial statements. For the year ending March 31, 2007, government incorporated information on leased capital assets by way of inserting a footnote on the tangible capital assets schedule.[10]

The footnote describes assets held on capital leases by asset type, disclosing the historical cost, accumulated amortization and net book value on a comparative basis. This information is required disclosure according to PSAB, but we found it difficult to read in its current presentation. In our view, it would be more useful to readers to disclose this information by way of a separate table, similar to one on tangible capital assets that this footnote relates to.

***Recommendation 8***

*We recommend that government create a table for tangible capital assets under lease similar to the table presentation used for the current statement of tangible capital assets.*

PSAB standards also require disclosure of the liabilities related to leased tangible capital assets. These should be shown separately from other liabilities, and should disclose information on interest rates, expiry dates and significant conditions of lease agreements such as future contractual obligations, purchase options, terms of renewal and contingencies, and circumstances that require or result in government's continuing involvement in the contractual arrangement. Government is not currently disclosing this information.

[10] On page 84 of the Public Accounts.

***Recommendation 9***

*We recommend that capital lease related liabilities be disclosed separately to meet PSAB standards on leased tangible capital assets.*

## Regular assessment of long-term liabilities and better disclosure about the nature and effect of material errors is needed, such as the Vancouver Island Natural Gas Pipeline Agreement accrual

Terasen Gas (Vancouver Island) Inc. and the Province are signatories to the Vancouver Island Natural Gas Pipeline Agreement in 1995. The agreement was part of a financial restructuring of the natural gas transmission and distribution companies on Vancouver Island. Included in the agreement is a payment made to Terasen by the Province that is tied to the royalties British Columbia collects on natural gas production. In 1995, the Province recorded a $75 million liability related to this, calculated based on the estimated gas prices at that time. Each year this liability has been drawn down by the original estimated payments (set volumes × estimated price). However, actual payments by the Province have been based on the volumes set in the agreement and the current calendar gas price.

During fiscal 2000/01, when natural gas prices started to rapidly climb, the liability was reassessed. However, no adjustment was made, because it was unknown whether the price increase would be temporary or permanent over the term of the agreement. Government had planned to reassess the liability within the following two years, but did not.

Had the liability been reassessed in fiscal 2002/03 as planned, an adjustment would have been recorded to increase the pipeline agreement liability recorded in government's financial statements. Not doing so resulted in a material financial statement error of understated liabilities.

Current gas prices continue to be much higher than originally forecasted in the agreement. Therefore, the original liability has not represented the true cost to the Province since fiscal 2000/01. For fiscal 2006/07, government retroactively corrected this error in accordance with PSAB guidance. The liability was increased by $168 million, for an ending liability balance as at March 31, 2007, of $180 million.

Although the error was correctly accounted for in 2006/07 but not earlier, we believe that government did not adequately disclose it in the Summary Financial Statements. When there is a correction in the current period of an error in prior period financial statements, PSAB requires:

- a description of the error;
- a description of the effect of the error correction on the financial statements of the current and prior periods; and
- disclosure of the fact that the financial statements of prior periods that are presented have been restated.

We found such disclosure in government's financial statements for 2006/07[11] to be deficient, showing only an adjustment to the opening accumulated deficit for 2005/06 and to the opening deficit for 2006/07. The note does not describe the error, but rather only what it relates to. As well, the fact that the financial statements of the prior period have been restated is not shown. Standard practice is to put "as restated" over the top of the prior period columns on the face of the financial statements to highlight this fact.

***Recommendation 10***

*We recommend that government regularly assess long-term liabilities to ensure they are a true and fair reflection based on the most recent information available.*

***Recommendation 11***

*We recommend that when government corrects material errors in its financial statements, it also provide a description of the error and the effect of the correction, and that it head the prior period columns on the face of the financial statements "as restated."*

[11] Note 24 on page 60 of the Public Accounts.

## Public-private partnership arrangements continue to dominate government capital procurement, and accounting for them remains complex

*The Gordon and Leslie Diamond Health Care Centre is an example of a government capital project carried out under a P3 procurement and financing model.*
*Source: PSPBC website*

In the past few years, the provincial government has used a public-private partnership (P3) procurement and financing model as its preferred method for large public sector capital projects. According to Partnerships BC (the Crown corporation set up to develop P3s), about a dozen of these projects are either operational or under construction in the province, and another four are in the procurement process.

Government has also recently implemented a new policy where the P3 model will be the "base case" for all provincially funded capital projects over $20 million. This policy applies to any ministry, Crown agency and other agency within the government reporting entity. It also applies to local government projects where the Province is contributing more than $20 million to the capital cost.

Given the Province's expanded policy with respect to P3 arrangements, we think it is important for government to continually assess its accounting framework to ensure it meets current accounting standards and reflects the economic substance of these transactions.

Over the past year, government has continued to assess how facilities constructed under P3 arrangement should be appropriately valued in its financial statements—both the assets created and liabilities assumed. Recently the Province developed a framework for making these assessments. We reviewed it and believe it will provide a reasonable foundation by which to value P3-constructed assets going forward.

## Accounting for resource roads continues to be reviewed

*British Columbia has thousands of kilometres of resource roads used for a variety of economic and recreational purposes.*

*Resource roads are currently defined by government to include forest roads, mining and mineral claim access roads and petroleum development roads.*

*Photo courtesy of Ministry of Transportation*

In our report last year on government's financial statements, we recommended that government review its policy on accounting for resource roads to see whether some roads should be capitalized. During fiscal 2006/07, government began to review the issue.

It has begun its review in the Ministry of Forests, starting by defining the population of resource roads. Four main categories have been identified: non-industrial, industrial, permit and non-status (see following page). Exhibit 3 shows the estimated total length of these roads by category.

### Exhibit 3

Estimated total length of major forest roads in British Columbia, by category

| Non-industrial | | Industrial | Permit | Non-status |
|---|---|---|---|---|
| Community | 1,170 | Licensees 24,000 | 155,000 | 170,000 – 200,000 |
| General | 6,400 | BC Timber Sales 19,000 | | |
| Recreational | 2,800 | | | |

**Note:** Estimated kilometres as at September 2007. The categories and the respective kilometres are not fixed, as the classification use of the roads may change. For example, roads previously designated as non-industrial general use can change to industrial use, community, recreational or residential access, and roads previously designated as industrial use can become community, recreational or residential access. This can result in significant fluctuations each year. In 2006, for example, there were 3,100 km of recreational roads and in 2007 there were 2,800 km.

Source: Ministry of Forests

*Photo courtesy of Ministry of Transportation*

### Forest Road Types

**Non-industrial** – Roads where there is no primary industrial user to delegate maintenance responsibility to, so the Province is responsible for maintenance. These include roads providing community,[12] residential and recreational access. These are similar to highways, except for the road quality. The scope of recreational access use has yet to be defined, but is similar to the land improvement asset class for provincial parks.

**Industrial** – Roads constructed by the Province where the maintenance responsibility is delegated to a road use permit holder (i.e., a licensee).

**Permit** – Roads that are constructed, maintained and deactivated by the forest industry under road permits.

**Non-status** – Roads that are not in active use and not managed by the ministry or any other agency, and for which no one is identified as having the responsibility to maintain or deactivate these roads.

Given the range of types of resource roads, each category must be evaluated separately to determine whether it meets the definition of a tangible capital asset. During fiscal 2006/07, government assessed that community access roads did meet the definition under current policy for road capitalization. They were recorded in government's financial statements, which increased tangible capital assets by $50 million (2006: $50 million) and accumulated amortization by $29 million (2006: $28 million).

We had hoped government would have made more progress in its evaluation of resource roads last fiscal year, but we will continue to work with the Office of the Comptroller General and several ministries on this issue. While research started this year in the Ministry of Forests, it will also need to be completed for the Ministry of Energy Mines and Petroleum Resources to complete an assessment of capitalization for resource roads in its portfolio.

***Recommendation 12***

*We recommend that government complete its assessment of accounting for resource roads in fiscal 2007/08 and record the applicable roads as tangible capital assets in the Summary Financial Statements.*

CICA standards also require accounting for the decommissioning of assets—or "asset retirement obligations." In conjunction with recording resource roads as tangible capital assets, government must also consider whether a liability for decommissioning roads must also be recorded, where a reasonable estimate of the fair value of the obligation and the future settlement date of the retirement of the road asset can be determined.

***Recommendation 13***

*We recommend that government assess where asset retirement obligations should be recorded for applicable resource roads and recognize those obligations in their financial statements.*

[12] A community is defined as a populated First Nations reserve, or a populated centre that has a Canada Post office or a school or that is served by school buses provided by the school district.

## Employee pension plans disclosure improved

Given the significance of retirement benefit plans on government's finances, it is important for financial statement users to have full disclosure in order to assess the impact these pension plans have on the results of operations and financial position of government.

For the fiscal year ended March 31, 2007, government reorganized the financial statement note[13] that discloses information on employee pension plans, which we believe makes it easier for readers to follow. As well, the note now includes additional information on important plan assumptions, including expected long-term inflation rates, dates of audited financial statements and preliminary overall fund rates of return; and it further meets PSAB requirements by disclosing the Province's contributions to the plans for the current year.

Although improvements have been made, the note to the employee pension plans still does not contain the minimum information that the PSAB standard requires. For example, it does not disclose the current period benefit cost (i.e., the pension expense) or the amount of contributions by employees during the year for any of the plans.

Also, while the note contains a reference to a website where more information can be found on the joint trustee plans, government financial statements should be complete in themselves, and providing references to other financial statements and reports is not a substitute for disclosure in the financial statements. We therefore believe that by providing such a reference (i.e., to the website), government is not fulfilling the required disclosure standard of including this information in its financial statements.

***Recommendation 14***

*We recommend that government fully implement the remaining PSAB standards on retirement benefits to meet the minimum required disclosure.*

[13] Note 16 on pages 50-52 of the Public Accounts.

# Updates on Issues from the Prior Year

## Post-employment benefits disclosure expanded

For the fiscal year ended March 31, 2007, the Province expanded its note disclosure of post-employment benefits[14] by providing in a table a breakdown of the amounts by category describing the nature of the benefits.

The requirement for post-employment benefits disclosure is similar to the requirement for pension plan disclosure, although it varies depending on the nature of the benefit. PSAB also requires disclosure of the information about key assumptions, a reconciliation of assets and accrued benefit obligations from the beginning of the fiscal year to the end of it, and the cost of the current period benefit. Government is currently not providing this key information in its note for post-employment benefits.

***Recommendation 15***

*We recommend that government fully implement the PSAB standard on post-employment benefits to meet the minimum required disclosure.*

## Disclosure of interest expense has improved, but should also be shown in a single place

Before fiscal 2006/07, part of the cost of government's borrowing was disclosed on its statement of operations as interest expense. The rest was combined with health, education and transportation costs.

We were pleased to see that, starting in fiscal 2006/07, government now discloses interest as a single item on the statement of operations.[15]

However, we also found that interest paid on capital leases is being grouped with "other" expenses, so once again all of the interest is not shown on the same line in the financial statements. Interest expense is a significant part of government's total expenses, and so we believe that showing interest on one line helps readers understand the full extent of the government's interest expense.

[14] Note 12 on page 49 of the Public Accounts.

[15] Page 34 of the Public Accounts.

***Recommendation 16***

*We recommend that government include all interest in a single line item on the financial statements.*

## Disclosure of the 2010 Olympics Games commitment in the government financial statement should be expanded

For several years, we have reported that government has only disclosed a commitment of $600 million for the 2010 Olympic and Paralympic Winter Games in its Summary Financial Statements. In the notes to the 2006/07 Summary Financial Statements,[16] a commitment and the amount spent against it to date—$272 million—is shown.

We believe, for several reasons, that this commitment is understated, an opinion we explain in detail in our September 2006 report *The 2010 Olympic and Paralympic Winter Games: Review of Estimates Related to the Province's Commitments* (available at www.bcauditor.com; an update report will be published in early 2008).

In particular, it does not include government's promise to the International Olympic Committee (IOC) to upgrade the Sea-to-Sky Highway. Although the amount spent to March 31, 2007 —$357 million—is disclosed later on in the text of the note, the remaining commitment amount is not mentioned there. The remaining estimated total commitment assuming 2% inflation and maximum performance payments, $1,626 million (which includes payments for maintenance after 2012), is included as part of the total government contractual obligations in the transportation sector.[17] The remaining capital portion of the Sea-to-Sky Highway, which we believe constitutes part of the commitment to the Olympics, has not been disclosed separately.

As well, the note does not disclose separately the other Games-related commitments that government has made, such as funding for the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat and construction of the Callaghan Valley roads. Although this is not specifically required under PSAB

[16] Note 25(c) on pages 63 and 64 of the Public Accounts.

[17] Included in the total of note 25(d) on page 64 of the Public Accounts.

standards for disclosure of contractual obligations, we believe that, given the significance of this undertaking and for transparent public reporting, government should include all Games-related commitments in one place: its Olympics commitment note.

***Recommendation 17***

*We recommend that government disclose its complete Games-related commitments in its Olympics commitment note.*

## Government's policy on capitalized interest during construction should be consistently applied

When an organization constructs a building or large capital asset, a generally accepted accounting practice is to include interest paid on money borrowed to finance construction as part of the cost of the asset. Capitalizing this interest ceases when construction is complete and the asset is put into use. From then on, any financing costs are expensed.

The Province's accounting policy is to capitalize interest charges on money borrowed to finance construction until the project is 97% complete. For highway construction and rehabilitation projects, interest during construction may be capitalized if the project is over $100,000. On capital projects over $5 million, interest during construction may be capitalized if it exceeds $250,000.

For the last three years, however, interest was capitalized on one construction project despite the fact that there was no specific borrowing for that project.

Since 2004/05, the Province has capitalized interest costs of almost $4 million as part of the cost of constructing the Vancouver Convention Centre Expansion. Although the Province is funding the construction (with the participation of the federal government and Tourism Vancouver), it has not specifically borrowed for the project. The interest it has capitalized is calculated as the Province's share of the amount spent on construction, times the average interest rate for the year on the total borrowing of the Province.

Although we support the practice of capitalizing interest during construction, doing so on this particular project makes us wonder about the lack of consistency in how the policy is applied across government and how the calculation is made. We note, for instance, the following:

- Interest has been attributed to the funding provided for the Vancouver Convention Centre Expansion, assuming that the funding came from general borrowing, but it has not been attributed to the substantial funding that was given for construction projects in the education and health sectors, which also came from general borrowing.
- The rationale for calculating interest is that general borrowing was needed to provide the funding for the expansion. However, in each of the three years in which interest has been capitalized on the convention centre expansion so far, the Province had a surplus of revenues over expenditures that it used to reduce its total debt. (The Province's share of the total construction to date, on which the interest is calculated, is $46 million. The net debt repayments over the last three years total just under $5 billion.)

We believe that rather than assigning interest during construction in an ad hoc way, government should review its accounting policy on capitalization of interest to address these issues.

***Recommendation 18***

*We recommend that government revise its policy on capitalization of interest during construction so that the policy is applied more logically (in terms of calculating the amount).*

***Recommendation 19***

*We also recommend that government apply its policy on capitalization of interest during construction consistently across the government reporting entity.*

Accounting standards continue to evolve, especially as many national standard-setting bodies across the globe attempt to bring their standards into harmony with each other. Canada is no exception, and there are a number of new standards in the making.

Early adoption of new standards is often encouraged by PSAB, and we have recommended previously that, to the extent practical, British Columbia adopt new standards before their formal effective date. The provincial government is required by legislation to follow GAAP and adopt new recommendations. However, it has also stated that early implementation of new recommendations is not always practical or, in its view, advisable.

One proposed PSAB standard in particular, accounting for government transfers, could have a significant impact on government's financial statements.

## Accounting for government transfers may change

Government transfers are funds or capital assets that are transferred from one government to another government or from a government to an individual or organization. For example, in fiscal 2006/07, the Province received $6.4 billion from the federal government and it paid $7.8 billion to local governments, organizations and individuals. PSAB is proposing a new standard for accounting for government transfers. While the proposal covers both receipts and payments of funds or capital assets, it is the accounting for the receipts from the federal government that might need to be changed.

The current standard for accounting for receipts of government transfers requires the funding to be recorded as revenue when received. Most of the transfers from the federal government are recorded that way. In 2004, however, the federal provincial Health Accord resulted in the transfer of significant funds to British Columbia for health care programs. Originally intended to be transferred over three years, the federal government instead transferred all the money during 2003/04, approximately $0.5 billion.

As well, British Columbia received further transfers during 2004/05. These totalled approximately $1.1 billion.

We advised government that we would agree with its proposal of deferring and recognizing the funds received as revenue to match the expense if it:

- deferred only those funds provided by the federal government for the specific purposes set out in the Health Accord;
- developed plans to spend those funds on the health care initiatives set out in the Health Accord;
- tracked the dollars spent; and
- developed and implemented a means to measure the effectiveness of the dollars spent that would withstand the rigour of an audit.

The alternative would have been to record the funds as revenue in the years received, something which was problematic for the government considering that some of the funding was received close to the year-end. In 2004/05, for example, $0.6 billion was received on March 30, the day before the fiscal year-end. Government could not constructively spend this money before March 31, and had it been budgeted to be spent in the following years when there was no federal revenue to offset the expense, there might have been a budget deficit. We agreed to the deferral at that time because the accounting for government transfers was still under review by PSAB, and the issue of revenue recognition and deferral was a significant factor in its deliberations.

Then, in 2005/06, we agreed to additional deferrals when amounts totalling $190 million were received for pine beetle mitigation and early learning child care programs; and again in 2006/07, when transfers totalling $31 million were received for settlement and immigration services. We supported the deferral of part of this funding as long as doing so met the same conditions noted above.

During the summer of 2007, PSAB finally released its proposed standard on accounting for government transfers. It is expected to be finalized by summer 2008, although the accounting policies will not become mandatory until the 2009/10 fiscal year. If approved in its current form, there will be significant changes in how some governments account for the transfers they make and receive.

As proposed, transfers received from the federal government will need to be recognized as revenue during the year in which the events giving rise to the transfer occur, provided that the transfer has been authorized (by the federal government) and federal eligibility criteria (if any) have been met. One eligibility criterion, for example, might be that the Province can incur expenses that comply with certain conditions and then apply to the federal government for re-imbursement (as is done, for example, with emergency program expenditures).

However, the proposed new standard will only allow deferral of revenue if there are both: *substantive performance requirements* (requirements governing how the funds are to be spent, which are specifically identifiable and can be objectively assessed for non-compliance); and *a requirement to return the funding* (or pay equivalent penalty) if those performance requirements are not met.

We note that the funding British Columbia has been deferring has performance requirements, but no return requirements. This means that the Province would not have been able to defer the transfer funding had the proposed standard been in place in 2003/04 when the first deferrals were made. This would have resulted in revenue being approximately $390 million higher in 2003/04, $770 million higher in 2004/05, $230 million less in 2005/06, and $332 million less in 2006/07.

## Segmented reporting

The purpose of producing functional consolidated sector information is to provide more detail to make it easier for financial statement users to understand both the composition of the Summary Financial Statements as a whole, and the relative size and financial results of each major part. It also:

- helps users:
  - identify the resources allocated to support the major activities of government;
  - make more informed judgements about the government reporting entity and its major activities; and
  - better understand the manner in which the organizations in government are organized; and
- enhances the transparency of financial reporting.

Effective April 1, 2007, government is required to follow the new PSAB handbook standard on segmented reporting. The standard covers how to define and disclose segments in government's Summary Financial Statements.

To its credit, the Province has been disclosing some segmented information for a number of years, even though there has been no requirement to do so until this new standard was introduced. Furthermore, the Province adopted a couple of the new reporting requirements earlier than required.

For the fiscal year ending March 31, 2007, government presented its segmented reporting statements on a comparative basis, disclosing both the current and prior year comparative amounts.[18] It also disclosed the basis for identifying its segment disclosure under its significant accounting policies note.[19]

We have identified some additional changes that we believe are also necessary if government is to comply with the new standard:

- Along with disclosing the basis for identifying the segments, government will need to disclose the nature of the segments, the activities they encompass, and the method of significant allocations to segments.
- Disclosure is needed of the aggregate of the net surplus/deficit of government business enterprises and government business partnerships accounted for under the modified equity method for each segment. Any changes in segment reporting accounting policies that have a material effect on segment information must also be disclosed.
- We encourage government to produce detailed statements for each segment, and so lead by example by providing more than minimum disclosure to make financial statements more understandable to readers. The current segmented information is aggregated such that there is a breakdown by financial statement line item for sectors such as health, education, social services and so on,[20] which meets PSAB standards. However, producing supporting schedules to these sectors would make it easier for the financial statement

[18] Pages 74-81 of the Public Accounts.

[19] Note 1 (c) on page 38 of the Public Accounts.

[20] Pages 74-81 of the Public Accounts.

users to understand the finances of the separate sectors of government. For example, a schedule for the health sector would include the consolidation of the health authorities, hospital societies, related health Crown corporations and the Ministry of Health.

***Recommendation 20***

*We recommend that, in addition to implementing the required segmented reporting standards, government continue its leading practice in this area of disclosure by producing detailed sector schedules in the Summary Financial Statements.*

## Government will need to review accounting for treaty accommodation and settlement costs

Treaty negotiations between the Province, Canada and First Nations have been ongoing for several years. As of March 31, 2007, British Columbia had 47 treaty tables in various stages of negotiations. Although only one treaty had been settled by then, eight agreements in principle had been signed and were pending ratification. Since then, several treaties have gone to ratification vote. For example, the Tsawwassen and Maa-nulth First Nation bands ratified their respective treaties with senior governments in July 2007.

Since treaties generally take several years to ratify, concession payments are made sometimes to First Nations prior to the full reconciliation of their interests. These concessions can take the form of interim accommodation payments where, for example, resource or other types of development activities have been proposed inside Ancestral Territories subject to final treaty negotiation. As the number of treaty negotiations increases, so does the accommodation costs.

Currently, no specific accounting guidance exists for the recognition of treaty accommodation or settlement costs. The accounting for the one treaty that has been signed was developed prior to the government financial statements being in compliance with GAAP. Given this, and with the progress in treaty negotiations, it is time to review accounting guidance to ensure a true, fair and consistent reflection of the agreements

with First Nations in the Summary Financial Statements. Government will need to assess the substance of treaty transactions to ensure all costs are appropriately and accurately recorded and disclosed in government's financial statements.

***Recommendation 21***

*We recommend that the Province review accounting for treaty accommodation and settlement costs to ensure transactions are recorded and disclosed in a true, fair and consistent manner.*

## Accounting for inherited Crown land transactions is problematic

Most of the land owned by the Province was inherited through the right of the Crown. It was not purchased by the Province, and in accordance with current standards, it is also not recorded on its statement of financial position as an asset. From time to time, some of this land is sold or given away as grants.

When inherited Crown land is sold or given away as a grant, government assesses its fair value and records revenue equal to the value of the land, setting it up as an asset, and then expensing it (as a cost of sale or a grant). As a result, there is no impact on government's annual surplus or deficit unless the land is sold for cash or other consideration, in which case the sale proceeds will increase a surplus (or reduce a deficit). The amount of Crown land grants recognized in the Summary Financial Statements for 2006/07 was $31 million (2005/06: $32 million; 2004/05: $82 million, which included a $79 million grant to Parks Canada).

This accounting practice is not in accordance with PSAB's accounting guidance, which states that all items inherited by right of the Crown (such as Crown lands) should not be recognized in government financial statements, although disclosure may be appropriate. We see PSAB's current accounting treatment as problematic for several reasons:

- there is no recognition that the Crown land government is giving away has a current value associated with it;
- there is no recognition of the value of the land to future generations since it's not recognized in the Summary Financial Statements as an asset in the first place; and

- from a budget and management perspective, it may create a false belief that there is no cost associated with giving away or granting Crown land.

We believe that accounting standards for inherited Crown land is a topic that requires attention by the Canadian accounting standard setting community, especially in light of the likely convergence of Canadian to International Financial Reporting Standards, where these types of assets would be recognized in government financial statements.

The government reporting entity is not static. Each year, organizations are created by government and must be reviewed to determine whether or not they should be included in the entity. Conversely, government may wind up or extinguish some entities when they no longer serve a public purpose or as part of restructuring initiatives. Relationships between government and its organizations may also change over time, affecting the appropriate accounting treatment.

## We continue monitoring the boundaries of the government reporting entity

A standard of PSAB says that an organization that is controlled by government should be included within the government reporting entity. Control is defined as the ability to influence the financial and operating policies of the organization. Government does not need to have actually influenced these policies. It just needs to have the ability to do so.

Usually, the issue of control is determined by whether or not government appoints a majority of the organization's board or other governing body—but the ability to control the organization is also an important factor.

In some cases, the legislation creating an organization provides government with clear authority to carry out its policies and programs through the organization. In other cases, the legislation establishes a governance framework that provides the organization with the authority required to determine its own strategic policies and programs independent of government. And in yet other cases, legislation creates new organizations with complex governance structures and relationships to government.

When a new organization is established, officials of government and our Office discuss the appropriate accounting treatment for it. The main issue is almost always whether the financial results of such organizations should be included (consolidated) within government's Summary Financial Plans and Summary Financial Statements. When they are consolidated, Ministers of government are directly accountable to the Legislative Assembly for the performance of these organizations.

# Government Reporting Entity Issues

In recent years, government has created a number of organizations that fall both within and outside the reporting entity. Usually, we agree with government officials on the most appropriate accounting approach. For instance, when the BC Safety Authority and the Land Title and Survey Authority were created, we agreed that these authorities should report their financial results separately from government. Accordingly, their results are not consolidated within government's financial plans or the Summary Financial Statements.

Often, much analysis and discussion takes place before we reach a position on the matter. When the new BC Ferry Services Inc. was created, for example, determining the most appropriate accounting treatment took several months of analysis and discussion. Eventually we adopted a position that, for that point in time, the most appropriate accounting for the organization was to report its financial results separately from government.

For BC Ferry Services Inc., we also undertook to monitor and assess whether that accounting treatment continues to be appropriate. We are doing this because the legislation creating BC Ferry Services established a complex ownership and governance structure, and because the organization has a significant ongoing relationship with government through the Coastal Ferry Services Contract.

There are times when, even after much analysis and discussion, government and our Office do not agree on the most appropriate accounting treatment for a new organization. For example, we disagree with the method used by government to account for the BC Forest Revitalization Trust Account. We think the financial results of this account should be consolidated within government's Summary Financial Statements because the account is not able to make key strategic and operating decisions independent of government.

We also disagree in the case of the British Columbia Investment Management Corporation. We believe that it should be part of the reporting entity because government owns the single share of the corporation. Government, meanwhile, believes that it should be outside the reporting entity because, despite owning the single share, it does not have the ability to appoint a majority of the board.

In both these cases, however, we have determined that the impact of not consolidating either organization is currently not material enough to qualify our opinion on the Summary Financial Statements.

In our report on the 2004/05 Public Accounts,[21] we discussed a number of significant new entities that were created by government and deemed to be outside the government reporting entity. They included:

- Northern Development Initiative Trust
- North Island-Coast Development Initiative Trust
- Southern Interior Development Initiative Trust

Although we took the position that that these entities are to be reported outside of the government reporting entity for fiscal 2005/06, we will continue to monitor their operations and relationship with government to ensure the current treatment remains appropriate. It may not be until these organizations have been in existence for a few years that the interaction between them and government (or lack of it) enables us to clarify the true nature of the relationship.

We also actively monitor (as does government) changes in accounting standards, especially those that might give additional guidance on how to determine which organizations should be part of the government reporting entity. Examples of other entities government has created but currently deems not to be in the government reporting entity include:

- New Relationship Trust
- B.C. Rail Benefits (First Nations) Trust
- Coast Sustainability Trust
- Motor Dealer Administrative Authority
- F.D.B.C. Film Development Society of British Columbia
- British Columbia Achievement Foundation

Given the significant funding often granted to these organizations—and the pervasive role they play in the lives of British Columbia's citizens—we plan to increase our audit focus to examine government's relationship with some of these bodies in more detail to verify their status as independent from government.

[21] *Leading the Way: Adopting Best Practices in Financial Reporting 2004/2005* Report 9, March 2006.

## Recommendations Related to Improved Presentation and Other Accounting Changes

*Government's financial statement discussion and analysis*

***Recommendation 1***

*We continue to recommend that government present a long-term trend analysis in the financial statement discussion and analysis (FSD&A) so that it can provide more context for discussing government's financial performance. In addition, we recommend that government cross-reference the FSD&A and the Financial and Economic Review.*

***Recommendation 2***

*We recommend that government continue to expand its financial statement discussion and analysis (FSD&A) to better cover material financial risks and uncertainties and the challenges involved in their ongoing management.*

***Recommendation 3***

*We recommend that government adopt the use of the CICA-recommended measure of "government-to-government transfers to own-source revenue" for use in the financial statement discussion and analysis.*

*Disclosure of contractual obligations*

***Recommendation 4***

*We recommend that government disclose contractual obligations for operating expenditures and capital expenditures separately on a comparative basis, and include a summary description of the nature of the expenditures.*

*Disclosure around the use of estimates*

***Recommendation 5***

*We recommend that government disclose the financial statement lines where the items subject to measurement uncertainty are recorded.*

***Recommendation 6***

*We recommend that government disclose details of significant changes in prior year accounting estimates.*

*Disclosure of university-controlled organizations (and any other organizations) that meet the definition of a government business enterprise*

***Recommendation 7***

*We recommend that, as required by PSAB standards, the university-controlled organizations (and any other organizations) that meet the definition of a government business enterprise and are accounted for on the modified equity basis be disclosed in the government's financial statements—in the Statement of Financial Position for Self-supported Crown Corporations and Agencies and the Summary of Results of Operations and Statement of Equity for Self-supported Crown Corporations and Agencies.*

## Recommendations Related to New Issues

*Disclosure of tangible capital assets under lease*

***Recommendation 8***

*We recommend that government create a table for tangible capital assets under lease, similar to the table presentation used for the current statement of tangible capital assets.*

***Recommendation 9***

*We recommend that capital lease related liabilities be disclosed separately to meet PSAB standards on leased tangible capital assets.*

*Assessment of long-term liabilities and disclosure of material errors*

***Recommendation 10***

*We recommend that government regularly assess long-term liabilities to ensure they are a true and fair reflection based on the most recent information available.*

***Recommendation 11***

*We recommend that when government corrects material errors in its financial statements, it also provide a description of the error and the effect of the correction, and that it head the prior period columns on the face of the financial statements "as restated."*

## Recommendations Related to Prior Year Issues

*Accounting for resource roads*

***Recommendation 12***

*We recommend that government complete its assessment of accounting for resource roads in fiscal 2007/08 and record the applicable roads as tangible capital assets in the Summary Financial Statements.*

***Recommendation 13***

*We recommend that government assess where asset retirement obligations should be recorded for applicable resource roads and recognize those obligations in their financial statements.*

*Retirement and post-employment benefits disclosure*

***Recommendation 14***

*We recommend that government fully implement the remaining PSAB standards on retirement benefits to meet the minimum required disclosure.*

***Recommendation 15***

*We recommend that government fully implement the PSAB standard on post-employment benefits to meet the minimum required disclosure.*

*Interest expense disclosure*

***Recommendation 16***

*We recommend that government include all interest in a single line item on the financial statements.*

# Summary of Recommendations

*Disclosure of Olympic Games commitments*

***Recommendation 17***

*We recommend that government disclose its complete Games-related commitments in its Olympics commitment note.*

*Policy on interest capitalization*

***Recommendation 18***

*We recommend that government revise its policy on capitalization of interest during construction so that the policy is applied more logically (in terms of calculating the amount).*

***Recommendation 19***

*We also recommend that government apply its policy on capitalization of interest during construction consistently across the government reporting entity.*

## Recommendations Related to Changing Standards and Emerging Issues

*Segment disclosures*

***Recommendation 20***

*We recommend that, in addition to implementing the required segmented reporting standards, government continue its leading practise in this area of disclosure by producing detailed sector schedules in the Summary Financial Statements.*

*Accounting for treaty accommodation costs*

***Recommendation 21***

*We recommend that the Province review accounting for treaty accommodation and settlement costs to ensure transactions are recorded and disclosed in a true, fair and consistent manner.*

# Response from the Ministry of Finance

# Response from the Ministry of Finance

## General Comments

We appreciate the opportunity to respond to the Office of the Auditor General's comments. We continue to report our financial statements in accordance with generally accepted accounting principles (GAAP) for senior governments in Canada, and have once again received an unqualified audit opinion for the 2006/07 fiscal year having not only met those requirements, but in many cases exceeded them in the interests of transparency and accountability. An unqualified audit opinion means that the province has reported its financial position and results of operations fairly and in accordance with GAAP. We thank the Auditor General for the suggestions provided.

Over the past year we have worked closely with the government financial reporting community, both nationally and internationally, to promote the development of best practices in public sector reporting. Although we fully meet the requirements of GAAP for senior governments as established by the Public Sector Accounting Board (PSAB), we recognize that there are opportunities to go beyond GAAP to expand disclosure in areas that will improve transparency and accountability. The Office of the Auditor General provides one important perspective as we examine the options for future improvement.

The report of the Auditor General has made several recommendations which highlight potential changes to our current financial statements, as well as areas that will need to be reviewed in the future in response to evolving accounting standards. We agree that all of these areas are important and are committed to thorough analysis of the issue to ensure we adopt the best practices for public sector reporting in the context of governments in Canada. In examining potential changes, we remain conscious that the benefits to users of our financial statements must outweigh the additional costs of providing information and must not impair the timeliness of the release of the Public Accounts.

# Ministry Response

Over the past year, we have continued to improve public sector reporting in British Columbia. One positive achievement has been the implementation of a better model for determining the capital and operating elements of complex Public Private Partnerships which the Auditor General has commented on favourably in his report. While the total cost of P3 arrangements remains the same, the new approach allows us to determine the different elements with greater accuracy. We also note that as a result of consistent improvements in the Financial Statement Discussion & Analysis, the Office of the Auditor General feels that it is no longer necessary to produce the annual Monitoring Government Finances report.

## Following are responses to the specific recommendations of the Auditor General:

**Recommendation 1.** In accordance with our original implementation plan, we will be including five years of trend information in the Financial Statement Discussion & Analysis for the 2007/08 Public Accounts. We also agree that a link to the Financial and Economic Review would be beneficial to users of our financial statements.

**Recommendation 2.** We expanded discussion of material financial risks in the 2006/07 Public Accounts and will continue to examine opportunities for expanding that discussion with information that is meaningful to users.

**Recommendation 3.** We continue to use the related indicator, Government-to-Government Transfers to Total Revenue, because we believe it is more readily understandable by users of our financial statements and provides the best representation of the province's relative reliance on federal transfers.

**Recommendation 4.** We currently fulfill the requirements of GAAP in disclosing contractual obligations in our financial statements.

Contractual obligations are estimates of future payments under agreements which may include capital or operating elements or in some cases, both. Because the disclosure is of future payment obligations rather than future expense recognition, we believe it would be inconsistent with the way all other information in the financial statements is presented to represent them as separate capital and operating obligations.

The Auditor General also recommends additional narrative on the nature of specific obligations. Given the highly aggregated nature of the Summary Financial Statements, it would not be possible to provide interested users with sufficient information on the broad range of obligations across the Government Reporting Entity. Interested parties would be better served by examining the detailed disclosure in the financial statements of the crown agencies reporting the obligations.

**Recommendation 5.** We agree that relating disclosed measurement uncertainty to financial statement lines would be useful information for users of our financial statements and will adopt the recommendation for the 2007/08 Public Accounts.

**Recommendation 6.** GAAP currently does not provide much guidance on when changes in estimates should be disclosed or in which note the disclosure should be made. We believe there is an opportunity to provide useful information in this area and will work with standards setters and other jurisdictions to examine options.

**Recommendation 7.** We do not agree that a crown agency's equity investment in non-core subsidiaries should be considered the same as a significant self-supported operation of government which is delegated the responsibility and autonomy to operate as a Government Business Enterprise. We do, however, agree that should any of these arrangements become significant enough to have a material impact on the Summary Financial Statements, we would ensure adequate disclosure of the operations consistent with the disclosure for entities consolidated on the modified equity basis.

**Recommendations 8 & 9.** Leased capital assets totaled $371 million in the 2006/07 Public Accounts, included with tangible capital assets totalling $29 billion. We disclose this amount in a footnote to the table and do not believe the amounts are material enough to warrant separate detailed disclosure given the highly aggregated nature of the Summary Financial Statements. Also, the amount of future obligations under lease arrangements, the main component of additional lease disclosure, is already included under Contractual Obligations.

**Recommendations 10 & 11.** We agree that all liabilities should be reviewed and assessed annually as part of the financial reporting process.

The adjustment noted in the report was specifically disclosed in Note 24, footnote 3, on page 60 of the 2006/07 Public Accounts. We do not specifically notate columns "as restated" in the public accounts because the government reporting entity is very large and there are always adjustments to prior year amounts. Instead, we provide disclosure of changes to comparative figures in Note 33 on page 67 of the 2006/07 Public Accounts.

**Recommendations 12 & 13.** Analysis supporting the capitalization of resource roads began in the 2006/07 fiscal year and continued in 2007/08. We have continued to work with ministries and the Office of the Auditor General to ensure that those roads that meet the criteria of tangible capital assets, and any related retirement obligations, are appropriately capitalized and amortized over their useful life, rather than recognized as expense when built.

**Recommendations 14 & 15.** We do not agree that additional technical detail is useful in relation to the provinces disclosure of retirement benefits and post employment benefits. Although GAAP does provide an extensive list of information that should be disclosed, it also provides the following direction:

> *"The level of detail disclosed by governments would reflect the highly aggregated nature of summary financial statements. In deciding the level of detail to disclose, governments would consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with, a government's retirement benefits plan. The level of disclosure would also consider the sensitivity of the information in relation to government's financial position."* PS3250.089

We believe that the detailed disclosure already provided in the public accounts, along with the detailed information available through the link to the Pension Corporation in the notes to the financial statements, provides users with sufficient information to satisfy their requirements.

**Recommendation 16.** We agree that all interest expense should be reported on a single line item. Interest on capital leases, recorded as "Other" expenses, was approximately $7 million in the 2006/07 Public Accounts and will be included with interest expense in the 2007/08 Public Accounts.

**Recommendation 17.** We do not agree that separate disclosure of indirect spending initiatives related to the 2010 Olympic Games is appropriate in the general purpose financial statements of the province. We believe that specific reports, such as the reports of the Auditor General and the reports of the Vancouver Organizing Committee, are a more appropriate forum for detailed reporting of the games initiative. More information is available in the Auditor General's report on the 2010 Olympic Games and government's response to that report.

**Recommendations 18 & 19.** We have reviewed the province's policy on capitalization of interest during construction and believe that improvements can be made by refining the policy. We will continue to work on this issue over the next year.

**Recommendation 20.** The province has for several years provided segmented financial information, even before it was recommended by GAAP. We do not believe that fully segmenting all of the schedules and notes on a sectoral basis would be consistent with GAAP because it would undermine the summary focus of the financial statements.

**Recommendation 21.** We continually examine the accounting policies of the province to ensure they are consistent with the evolving requirements of GAAP and consistent with emerging best practice for public sector financial reporting in Canada. We have over the past year engaged the financial reporting community nationally and internationally, as well as the Office of the Auditor General, to ensure our treatment of financial transactions arising from treaty settlements is consistent with GAAP.

We believe that the 2006/07 Public Accounts once again demonstrates our commitment to transparent and accountable financial reporting and meets the information needs of our users. We thank the Office of the Auditor General for its continuing support in meeting this objective.

# Appendix A: Glossary

### Accounting Standards Board (AcSB)

This board, which is part of the CICA, has the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

### Canadian Institute of Chartered Accountants (CICA)

The CICA is an independent body that conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the CA profession nationally and internationally.

### Financial Accounting Standard (FAS)

Accounting standards issued in the United States by the Financial Accounting Standards Board (FASB). The standards govern the preparation of financial reports and are officially recognized as authoritative by the (U.S.) Securities and Exchange Commission.

### generally accepted accounting principles (GAAP)

Accounting principles as laid down (in Canada) by the CICA and PSAB, to be followed in the preparation and presentation of financial statements.

### generally accepted auditing standards (GAAS)

Auditing standards laid down (in Canada) by the CICA to be followed by every audit practitioner who issues an audit opinion on a set of financial statements.

### government business enterprise

A government business enterprise is an organization that sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity, and that can, in the normal course of operations, cover its expenses from those sales. It is a separate legal entity with the power to contract in its own name and to sue and be sued. It also has the financial and operational authority to carry on a business.

### government business partnership

A government business partnership is a partnership where one of the partners is government or a government organization, and which, except for being a partnership, is the same as a government business enterprise.

### government reporting entity (GRE)

The ministries and government organizations that are consolidated in the Summary Financial Statements.

# Appendix A: Glossary

governmental unit

A government organization that is not a government business enterprise. Governmental units include: government departments, funds, agencies, service organizations, boards, government not-for-profit organizations, and government business-type organizations.

line-by-line consolidation

A method of consolidating ministries, Crown corporations and other government organizations. The assets, liabilities, revenues and expenses of each entity are added together (line-by-line) and transactions between the entities are eliminated. Before consolidation, the accounting policies of each entity may need to be adjusted so that they conform to the accounting policies used for the government financial statements.

modified equity method of consolidation

A method of consolidation whereby only the investment and earnings from the investment are recorded in the financial statements. This method is used to consolidate government business enterprises and government business partnerships.

public-private partnership (P3)

A specialized procurement arrangement that involves a long-term contract between a government and a private-sector entity, with the entity taking responsibility for some combination of ownership, design, construction, financing, operation and maintenance of the public-use facility.

Public Sector Accounting Board (PSAB)

Part of the CICA, the board that has the authority to set accounting standards for the public sector.

Statement of Recommended Practice (SORP)

A statement issued by PSAB which does not form part of generally accepted accounting principles (GAAP), but offers general guidance to encourage and assist public sector entities in reporting information that is useful in evaluating their financial condition at the financial statement date and their financial and non-financial performance during the reporting period.

tangible capital assets

Non-financial assets of physical substance that:

- are held for use in the production of supply of goods or services;
- have useful economic lives extending beyond an accounting period; and
- have been acquired to be used on a continuing basis.

# Appendix B: Ministries and Government Organizations Included in the 2006/2007 Summary Financial Statements, and Their Auditors

| Sector and Organization | Audited by: Auditor General | Private Sector Auditors[1] |
|---|---|---|
| Government ministries (all) (Consolidated Revenue Fund) | ✓ | |
| **Health Sector** | | |
| Bella Coola General Hospital | | ✓ |
| Canadian Blood Services (a partnership with the other provinces) | | ✓ |
| Fraser Health Authority | ✓ | |
| Interior Health Authority | | ✓ |
| Louis Brier Home and Hospital | | ✓ |
| Menno Hospital | | ✓ |
| Mount St. Mary Hospital | | ✓ |
| Nisga'a Valley Health Board | | ✓ |
| Northern Health Authority | | ✓ |
| Providence Health Care | | ✓ |
| Provincial Health Services Authority | | ✓ |
| R.W. Large Memorial Hospital | | ✓ |
| St. Joseph's General Hospital | | ✓ |
| St. Michael's Centre | | ✓ |
| Vancouver Coastal Health Authority | | ✓ |
| Vancouver Island Health Authority | | ✓ |
| Wrinch Memorial Hospital | | ✓ |
| **Education Sector** | | |
| British Columbia Institute of Technology | | ✓ |
| Camosun College | | ✓ |
| Capilano College | | ✓ |
| College of New Caledonia | | ✓ |
| College of the Rockies | | ✓ |
| Douglas College | | ✓ |
| Emily Carr Institute of Art and Design | | ✓ |
| Industry Training Authority | ✓ | |
| Institute of Indigenous Government | | ✓ |
| Justice Institute of British Columbia | | ✓ |
| Kwantlen University College | | ✓ |
| Langara College | ✓ | |
| Leading Edge Endowment Fund Society | | ✓ |

# Appendix B: Ministries and Government Organizations Included in the 2006/2007 Summary Financial Statements, and Their Auditors

| Sector and Organization | Audited by: Auditor General | Audited by: Private Sector Auditors[1] |
|---|---|---|
| **Education Sector *cont'd*** | | |
| Malaspina University-College | | ✓ |
| Nicola Valley Institute of Technology | | ✓ |
| North Island College | | ✓ |
| Northern Lights College | | ✓ |
| Northwest Community College | | ✓ |
| Okanagan College | | ✓ |
| Okanagan University College | | ✓ |
| Open Learning Agency | | ✓ |
| Private Career Training Institutions Agency | | ✓ |
| Royal Roads University | | ✓ |
| School District No. 5 (South East Kootenay) | | ✓ |
| School District No. 6 (Rocky Mountain) | | ✓ |
| School District No. 8 (Kootenay Lake) | | ✓ |
| School District No. 10 (Arrow Lakes) | | ✓ |
| School District No. 19 (Revelstoke) | | ✓ |
| School District No. 20 (Kootenay-Columbia) | | ✓ |
| School District No. 22 (Vernon) | | ✓ |
| School District No. 23 (Central Okanagan) | | ✓ |
| School District No. 27 (Cariboo-Chilcotin) | | ✓ |
| School District No. 28 (Quesnel) | | ✓ |
| School District No. 33 (Chilliwack) | | ✓ |
| School District No. 34 (Abbotsford) | | ✓ |
| School District No. 35 (Langley) | | ✓ |
| School District No. 36 (Surrey) | | ✓ |
| School District No. 37 (Delta) | | ✓ |
| School District No. 38 (Richmond) | | ✓ |
| School District No. 39 (Vancouver) | | ✓ |
| School District No. 40 (New Westminster) | | ✓ |
| School District No. 41 (Burnaby) | | ✓ |
| School District No. 42 (Maple Ridge-Pitt Meadows) | | ✓ |
| School District No. 43 (Coquitlam) | | ✓ |
| School District No. 44 (North Vancouver) | | ✓ |
| School District No. 45 (West Vancouver) | | ✓ |

# Appendix B: Ministries and Government Organizations Included in the 2006/2007 Summary Financial Statements, and Their Auditors

| Sector and Organization | Audited by: Auditor General | Audited by: Private Sector Auditors[1] |
|---|---|---|
| **Education Sector *cont'd*** | | |
| School District No. 46 (Sunshine Coast) | | ✓ |
| School District No. 47 (Powell River) | | ✓ |
| School District No. 48 (Howe Sound) | | ✓ |
| School District No. 49 (Central Coast) | | ✓ |
| School District No. 50 (Haida Gwaii-Queen Charlotte) | | ✓ |
| School District No. 51 (Boundary) | | ✓ |
| School District No. 52 (Prince Rupert) | | ✓ |
| School District No. 53 (Okanagan-Similkameen) | | ✓ |
| School District No. 54 (Bulkley Valley) | | ✓ |
| School District No. 57 (Prince George) | | ✓ |
| School District No. 58 (Nicola-Similkameen) | | ✓ |
| School District No. 59 (Peace River South) | | ✓ |
| School District No. 60 (Peace River North) | | ✓ |
| School District No. 61 (Greater Victoria) | | ✓ |
| School District No. 62 (Sooke) | | ✓ |
| School District No. 63 (Saanich) | | ✓ |
| School District No. 64 (Gulf Islands) | | ✓ |
| School District No. 67 (Okanagan-Skaha) | | ✓ |
| School District No. 68 (Nanaimo-Ladysmith) | ✓ | |
| School District No. 69 (Qualicum) | | ✓ |
| School District No. 70 (Alberni) | | ✓ |
| School District No. 71 (Comox Valley) | | ✓ |
| School District No. 72 (Campbell River) | | ✓ |
| School District No. 73 (Kamloops-Thompson) | | ✓ |
| School District No. 74 (Gold Trail) | | ✓ |
| School District No. 75 (Mission) | | ✓ |
| School District No. 78 (Fraser-Cascade) | | ✓ |
| School District No. 79 (Cowichan Valley) | | ✓ |
| School District No. 81 (Fort Nelson) | | ✓ |
| School District No. 82 (Coast Mountains) | | ✓ |
| School District No. 83 (North Okanagan-Shuswap) | | ✓ |
| School District No. 84 (Vancouver Island West) | | ✓ |
| School District No. 85 (Vancouver Island North) | | ✓ |

# Appendix B: Ministries and Government Organizations Included in the 2006/2007 Summary Financial Statements, and Their Auditors

| Sector and Organization | Audited by: Auditor General | Private Sector Auditors[1] |
|---|---|---|
| School District No. 87 (Stikine) | | ✓ |
| **Education Sector *cont'd*** | | |
| School District No. 91 (Nechako Lakes) | | ✓ |
| School District No. 92 (Nisga'a) | | ✓ |
| School District No. 93 (Francophone Education Authority) | | ✓ |
| School District consolidation[2] | ✓ | |
| Selkirk College | | ✓ |
| Simon Fraser University | | ✓ |
| Thompson Rivers University | | ✓ |
| The University of British Columbia | ✓ | |
| University College of the Fraser Valley | | ✓ |
| University of Northern British Columbia | | ✓ |
| University of Victoria | | ✓ |
| Vancouver Community College | | ✓ |
| **Natural Resources and Economic Development Sector** | | |
| 552513 BC Ltd | ✓ | |
| BCIF Management Ltd[3] | | ✓ |
| BC Immigrant Investment Fund Ltd | ✓ | |
| B.C. Pavilion Corporation | ✓ | |
| British Columbia Enterprise Corporation | ✓ | |
| British Columbia Hydro and Power Authority[3] | | ✓ |
| British Columbia Innovation Council | | ✓ |
| British Columbia Transmission Corporation[3] | ✓ | |
| Columbia Basin Trust | | ✓ |
| Columbia Power Corporation[3] | ✓ | |
| Creston Valley Wildlife Management Authority Trust Fund | | ✓ |
| Forestry Innovation Investment Ltd | ✓ | |
| Nechako-Kitamaat Development Fund Society | | ✓ |
| Oil and Gas Commission | ✓ | |
| Partnerships British Columbia Inc | | ✓ |
| Tourism British Columbia | ✓ | |
| Vancouver Convention Centre Expansion Project | ✓ | |

# Appendix B: Ministries and Government Organizations Included in the 2006/2007 Summary Financial Statements, and Their Auditors

| Sector and Organization | Audited by: Auditor General | Audited by: Private Sector Auditors[1] |
|---|---|---|
| **Transportation Sector** | | |
| BC Transportation Financing Authority | ✓ | |
| British Columbia Railway Company[3] | | ✓ |
| British Columbia Transit | | ✓ |
| Rapid Transit Project 2000 Ltd | | ✓ |
| **Social Services Sector** | | |
| Community Living British Columbia | ✓ | |
| Legal Services Society | | ✓ |
| **Other Sector** | | |
| BC Games Society | | ✓ |
| British Columbia Arts Council[4] | | |
| British Columbia Assessment Authority | ✓ | |
| British Columbia Buildings Corporation (wound up during the year) | | ✓ |
| British Columbia Housing Management Commission | | ✓ |
| First Peoples' Heritage, Language and Culture Council | | ✓ |
| Homeowner Protection Office | | ✓ |
| Provincial Capital Commission[3] | | ✓ |
| Provincial Rental Housing Corporation | | ✓ |
| The Royal British Columbia Museum Corporation | | ✓ |
| **Protection of Persons and Property** | | |
| British Columbia Securities Commission | ✓ | |
| Insurance Corporation of British Columbia[3] | | ✓ |
| Organized Crime Agency of British Columbia Society | | ✓ |
| **General Government Sector** | | |
| British Columbia Liquor Distribution Branch[3] | ✓ | |
| British Columbia Lottery Corporation[3] | | ✓ |

1 The Auditor General attends the Audit Committee meetings of a number of government organizations that are audited by private sector auditors.

2 The consolidation of school districts is prepared by the Ministry of Education to report the results as at March 31. (Individual school districts have a June 30 year-end.)

3 These organizations are self-supported Crown corporations and agencies (government business enterprises) and are recorded on a modified equity basis in the sector in which they are listed.

4 This organization is not audited.

# Appendix C: Public Accounts Financial Statement Discussion and Analysis Report and Summary Financial Statements



## Financial Statement Discussion and Analysis Report

### Highlights

The highlights section provides a summary of the key events affecting the financial statements.
The information contained within this section is taken from the Summary Financial Statements on pages 33–85. The budget figures are from pages 3–7 of the *Estimates—Fiscal Year Ending March 31, 2007.*

- The province ended the year with a surplus of $4,056 million. Taxation revenue increased by $1,589 million due to strong economic activity and personal income growth. There were also increases in one time transfers from the federal government ($561 million ) and increased earnings of self–supported Crown corporations ($465 million).

- 2006/07 also saw record investment in the infrastructure required to meet the needs of a growing economy and ensure that infrastructure is available to support current and future requirements for social programs. Total capital spending of $3,366 million, reduced by annual amortization and disposals totaling $1,496 million resulted in a net increase in infrastructure assets of $1,870 million.

- The surplus also provided for the reduction of total provincial debt by $1,038 million. The cumulative reduction in total debt in the four years since 2003/04 is $4,388 million. As reported in the financial statements (gross of sinking funds, guarantees and the direct debt of self–supported Crown corporations), debt was reduced by $1,309 million.

- In calendar year 2006 the province experienced strong economic growth of 3.6%, the second highest rate of growth among Canadian provinces.

- The financial statements of the province of British Columbia fully comply with generally accepted accounting principles for the public sector and received an unqualified audit opinion from the Office of the Auditor General.

- Recognizing governments commitment to sound financial management the province has received upgrades from all three major credit rating agencies. Dominion Bond Rating Service upgraded the province's rating to AA (high). Standard & Poor's and Moody's Investors Services Inc. upgraded their ratings to AAA and Aaa respectively, their highest possible ratings.

# Financial Statement Discussion and Analysis Report

## Economic Highlights

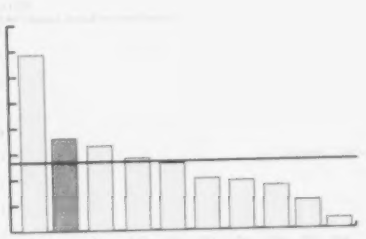
British Columbia's economy grew by 3.6% in calendar 2006, the second strongest growth among provinces and above the national average of 2.7%, according to preliminary results from Statistics Canada. The estimated 3.6% growth last year exceeds government's February 2006 budget forecast of 3.3%.

### Real Gross Domestic Product in Calendar Year 2006

Economic growth in British Columbia was fuelled by robust domestic activity in 2006. Real business investment grew by 9.5%, with growth in both residential construction (6.6%), non-residential construction (9.2%) and machinery and equipment investment (14.9%). Real consumer spending, which accounts for about two-thirds of all economic activity in the province, grew by 5.3% in 2006.

Despite the continued rise of the Canadian dollar against the US dollar in 2006, total exports of goods and services grew by 2.4%. Imports of goods and services from other countries and other provinces grew by 6.3% in 2006.

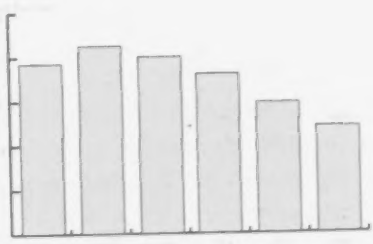
Provincial Comparison



### Unemployment Rate in Calendar Year 2006

British Columbia's economic growth was accompanied by a marked drop in the annual unemployment rate to 4.8% (the lowest in 30 years) and strong labour income growth of 8.2%.

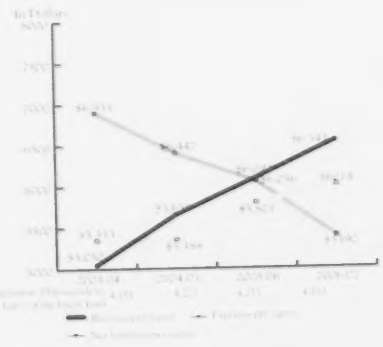
2001 to 2006



### Per Capita Information

Per capita information indicates the amount of revenue received, amounts expended, and net liabilities incurred per person in the province.

2003/04 to 2006/07



# Financial Statement Discussion and Analysis Report

## Discussion and Analysis

The detailed analysis section provides an overview of significant trends relating to the statement of operations, statement of financial position and the provincial debt.

### Summary Accounts Surplus (Deficit)

| | In Millions | | | Variance | |
|---|---|---|---|---|---|
| | 2006/07 Budget | 2006/07 Actual | 2005/06 Actual | 2006/07 Actual to Budget | 2006/07 vs 2005/06 |
| **Taxpayer-supported Programs and Agencies** | $ | $ | $ | $ | $ |
| Revenue | 33,393 | 35,819 | 33,753 | 2,426 | 2,066 |
| Expense | (33,914) | (34,448) | (32,883) | (534) | (1,565) |
| **Taxpayer-supported net earnings** | (521) | 1,371 | 870 | 1,892 | 501 |
| Self-supported Crown corporation net earnings | 1,971 | 2,685 | 2,220 | 714 | 465 |
| **Surplus (deficit) before unusual items** | 1,450 | 4,056 | 3,090 | 2,606 | 966 |
| Forecast allowance | (850) | | | 850 | 0 |
| **Surplus (deficit) for the year** | 600 | 4,056 | 3,090 | 3,456 | 966 |

The province ended the year with a surplus of $4,056 million, $3,456 million higher than budget, reflecting robust economic performance, higher than anticipated federal transfers and earnings from self-supported Crown corporations. Compared to the previous year, the 2006/07 results were $966 million higher.

The higher than expected surplus over the last few years has allowed the province to invest in infrastructure while reducing provincial debt. The 2006/07 surplus of $4,056 million resulted in a net annual investment in infrastructure of $1,870 million, made up of gross capital spending of $3,366 million less amortization and disposals of $1,496 million, and a reduction in total financial statement debt of $1,309 million. The $3,090 million surplus in 2005/06 and the $4,056 million surplus in 2006/07 helped finance these projects:

- $1.66 billion for post-secondary facilities including the North Cariboo Community Campus in Quesnel, and the University of Victoria's Engineering and Computer Science Building
- $0.61 billion for the K-12 school system including Pacific Heights Elementary school in Surrey and L'Ecole Victor Brodeur in Esquimalt
- $1.61 billion for health facilities and equipment including the Mental Health Building for Children at BC Children's and Women's Hospitals and cancer treatment vaults at the BC Cancer Agency's Vancouver Centre
- $1.53 billion for roads and bridges including the Cariboo connector program, Kicking Horse Canyon Phase I and the Yoho bridge

BC will continue to invest in building and upgrading schools, universities, colleges, hospitals, roads and bridges to meet the needs of a growing economy.

Analysis of the provinces surplus also identifies risks to continued strong performances in future periods. Volatility in sources of revenue, particularly natural resources revenue, indicates that higher than expected revenues cannot be counted on in future periods. Changing demographics and a tightening labour market pose a risk to increasing GDP and an increasing tax base. Dependence on one time transfers from the Federal Government is also a risk that must be monitored closely. Mitigating these risks is the moderate rate of increase in operating expenses to ensure sustainability in the future.

# Financial Statement Discussion and Analysis Report

## Components of Surplus (deficit)

### Revenue Analysis

Revenue analysis helps users understand the government's finances in terms of its revenue sources and to evaluate the revenue–producing capacity of the government.

#### Revenue by Source

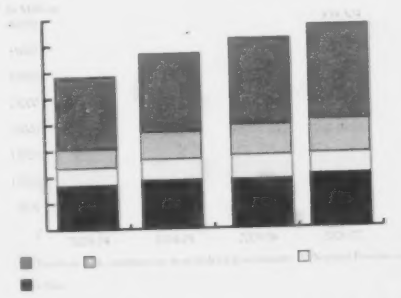
Revenue by source provides an outline of the primary sources of provincial revenue and changes between sources over time. Revenues are broken down into separate components of taxation; contributions from the federal government; natural resources and other sources, which includes contributions from self–supported Crown corporations, fees and licenses, and investment income.

In Millions

| | 2003/04 Actual $ | 2004/05 Actual $ | 2005/06 Actual $ | 2006/07 Actual $ |
|---|---|---|---|---|
| Taxation | 13,830 | 14,917 | 16,429 | 18,018 |
| Contributions from federal government | 3,619 | 5,222 | 5,825 | 6,386 |
| Natural resources | 3,309 | 3,973 | 4,567 | 3,982 |
| Fees and licences | 3,531 | 3,621 | 3,666 | 3,791 |
| Miscellaneous | 1,968 | 2,240 | 2,317 | 2,610 |
| Net earnings of self–supported Crown corporations | 1,955 | 2,562 | 2,220 | 2,685 |
| Investment income | 950 | 833 | 949 | 1,032 |
| **Total revenue** | **29,162** | **33,368** | **35,973** | **38,504** |

**2003/04 to 2006/07**

The province has experienced steady growth in revenues over the last four years. This growth is mainly due to strong economic performance, resulting in increased tax revenue. Federal contributions have also increased as a proportion of total revenues. Natural resource revenues have decreased in 2006/07 reversing a trend over the past several years due to a decline in natural gas prices. Average prices declined 29% in 2006/07 while volumes declined 1%.



In 2006/07 tax revenue increased by $1,589 million (10%) over the prior year and $4,188 million (30%) since 2003/04. Personal income tax, social services tax, property transfer tax and corporate income tax all increased over the previous year. The most significant increase was in personal income tax which increased by $1,067 million over 2005/06. The increase in tax revenue is a result of strong economic activity including personal and labour income growth.

Contributions from the federal government increased in 2006/07 by $561 million (10%) from 2005/06 mainly reflecting the one time payment received from the federal government to fund capital projects in British Columbia. The trend in federal government transfers has been increasing steadily since 2003/04, but one time grants based on federal surpluses may not be available in future years.

# Financial Statement Discussion and Analysis Report

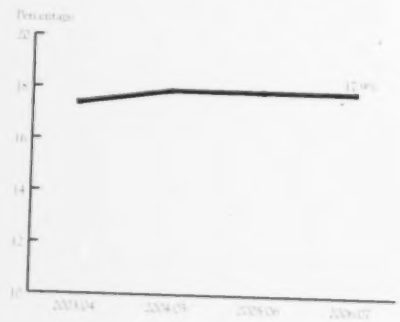
Natural resources revenues decreased in 2006/07 by $585 million (13%) from 2005/06 due to a decline in natural gas prices. The decrease is mostly attributable to declining natural gas royalties, which was offset by higher forestry revenues derived from the Softwood Lumber Export Tax, and higher metal prices. Natural resource revenues are volatile because they are subject to fluctuation in commodity prices.

Commercial Crown corporation income increased in 2006/07 by $465 million (21%). The increase in 2006/07 resulted from an increase in British Columbia Hydro and Power Authority's (BC Hydro) income due to lower energy costs; the Insurance Corporation of British Columbia (ICBC) experiencing lower claim costs and higher premium revenue; and stronger casino revenues in the British Columbia Lottery Corporation (BCLC ).

## Own–source Revenue to GDP

The ratio of own–source revenue to GDP represents the amount of income government is taking from the whole provincial economy in the form of taxation, natural resource revenues, user fees and sales (own–source revenue is all revenue except for federal transfers). Own–source revenue to GDP has remained constant around 18% for the last four years. This indicates the government has not increased the proportion received from the economy to meet its obligations and fund increases to social programs and infrastructure.

2003/04 to 2006/07

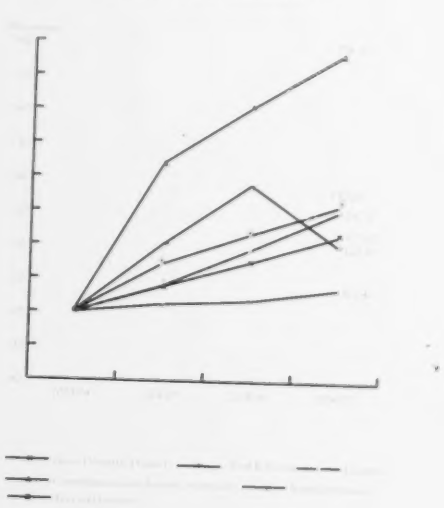


## Percentage Change in Revenue

Trend analysis of revenue provides users with information about significant changes in revenue over time and between sources, enabling users to evaluate past performance and assess potential implications for the future.

Increases in total taxation revenue have been consistent with the change in gross domestic product (GDP). Fees and licences have remained steady over the last four years while natural resources have shown significant increases over two years with the current year decline reflecting a decrease in natural gas royalties. Federal transfers revenue have exceeded GDP growth over the last three years indicating an increased share of federal surplus being invested in provincial programs and infrastructure.

2003/04 to 2006/07



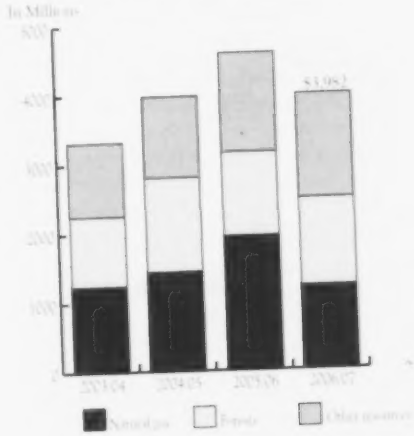
# Financial Statement Discussion and Analysis Report

## Natural Resources Revenue

Natural resource revenues are among the most volatile revenue sources for the province because they are vulnerable to market fluctuations in commodity prices.

The increasing trend in natural resource revenue from 2003/04 to 2005/06 reversed in 2006/07 as a result of a decrease in natural gas prices. Natural gas royalties decreased $714 million over 2005/06 which was offset by increases in royalties for minerals and energy and increased revenues from the Softwood Lumber Export Tax. The proportion of natural resource revenue attributable to natural gas royalties has decreased from 42% to 30% in the year.

2003/04 to 2006/07

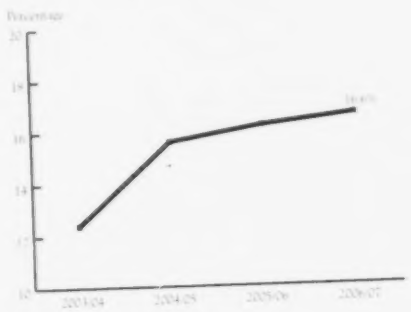



## Government–to–Government Transfers to Total Revenue

The ratio of government–to–government transfers to total revenue indicates the vulnerability of the province to changes in transfers from the federal government. The increase in the proportion of federal government transfers to total revenue outlines an increasing dependence on federal government transfers to fund provincial programs and investment in infrastructure.

The significant increase in 2004/05 reflects equalization program adjustments to the 2003/04 fiscal year. Smaller increases in subsequent years represent one time payments to fund specific provincial programs and infrastructure investments.

2003/04 to 2006/07



# Financial Statement Discussion and Analysis Report

## Expense Analysis

The following analysis helps users understand the impact of the government's spending on the economy, the government's allocation and use of resources, and the cost of government programs.

### Expense by Function

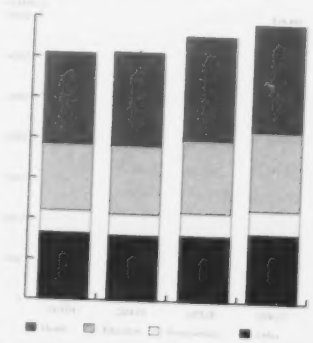
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions are broken down into separate components of health, education, social services, which make up 75% of the province's total operating expense, and other functions which includes interest, other, natural resources and economic development, protection of persons and property, transportation, and general government.

In Millions

| | 2003/04 Actual $ | 2004/05 Actual $ | 2005/06 Actual $ | 2006/07 Actual $ |
|---|---|---|---|---|
| Health | 11,250 | 11,529 | 12,838 | 13,253 |
| Education | 8,237 | 8,512 | 9,047 | 9,774 |
| Social services | 2,753 | 2,598 | 2,798 | 2,892 |
| Interest | 2,437 | 2,294 | 2,181 | 2,234 |
| Other | 1,075 | 1,027 | 1,094 | 1,278 |
| Natural resources and economic development | 1,631 | 1,686 | 1,630 | 1,664 |
| Protection of persons and property | 1,364 | 1,206 | 1,416 | 1,334 |
| Transportation | 1,120 | 1,308 | 1,203 | 1,251 |
| General government | 490 | 505 | 676 | 768 |
| **Total operating expense** | **30,357** | **30,665** | **32,883** | **34,448** |
| Restructuring exit expense | 123 | | | |
| **Total expense** | **30,480** | **30,665** | **32,883** | **34,448** |

Government spending has increased moderately since 2003/04 in line with affordability. Expenses have increased by 5% in 2006/07 while revenues increased by 10% in the same period, and GDP by 3.6%. The main increases in spending relate to increased wages and operating expense in the health sector, which were paid for partially from the funding received from the federal government; increased education funding reflecting post-secondary seat expansion; and increased funding to school districts.

2003/04 to 2006/07



In 2006/07, provincial operating expense totaled $34,448 million, a $1,565 million (5%) increase over 2005/06 operating expense and a $3,968 million (13%) increase over 2003/04. Health expense increased due to increases in salaries, operational costs and additional staffing. An increase of $727 million (8%) in education expense reflects the increase in salaries for schools, universities and colleges, including teacher and support staff bonuses; operating costs related to new research facilities for universities; increased staffing to fund smaller class sizes in schools and 4,394 new student spaces for colleges and universities. Social services costs increased $94 million from 2005/06 as a result of increased funding for social programs.

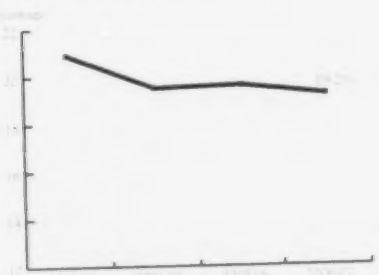
Other expenses have increased by $184 million over 2005/06; including additional spending on the 2010 Olympic venues and increased grant expense of BC Housing Management Commission.

# Financial Statement Discussion and Analysis Report

## Expense To GDP

The ratio of expense to GDP represents the amount of government spending in relation to the overall provincial economy. Government spending, as a percentage of GDP decreased slightly in 2006/07, after remaining constant from 2004/05 to 2005/06. This indicates that the economy is growing faster than spending in the province's health, education and social services sectors.

2003/04 to 2006/07



## Changes in Actual Results from 2005/06 to 2006/07

In Millions

| | Revenue $ | Expense $ | Surplus $ |
|---|---|---|---|
| **2005/06 Surplus** | **35,973** | **32,883** | **3,090** |
| Increase in taxation revenue | 1,589 | | 1,589 |
| Increase in federal contributions | 561 | | 561 |
| Decrease in natural resources revenue | (585) | | (585) |
| Net increase in other revenue | 501 | | 501 |
| Increase in self-supported Crown corporation net earnings | 465 | | 465 |
| Increase in health expense | | 415 | (415) |
| Increase in education expense | | 727 | (727) |
| Increase in general government expense | | 92 | (92) |
| Increase in other expenses | | 331 | (331) |
| Subtotal of changes in actual results | 2,531 | 1,565 | 966 |
| | **38,504** | **34,448** | |
| **2006/07 Surplus** | | | 4,056 |
| **2005/06 Accumulated (Deficit)** | | | (167) |
| Other comprehensive income from self-supported Crown corporation and agencies | | | 447 |
| **2006/07 Accumulated Surplus** | | | **4,336** |

Revenue increased by $2,531 million or 7% over 2005/06 due to the increases in taxation revenue and federal transfers, as well as increases from BC Hydro, and other self-supported Crown corporations earnings. These increases were partly offset by the decline in natural gas revenues due to lower prices. Federal government contributions increased $561 million from 2005/06 due to British Columbia's share of health transfers under the First Ministers' Accord and a one time capital transfer of $408 million related to post secondary education, public transit, affordable housing and off-reserve housing. The increase in federal government transfers was partially offset by a decrease in equalization entitlements.

# Financial Statement Discussion and Analysis Report

Personal and corporate income tax revenue rose by $1,179 million in the year. Personal income tax revenue increased by $1,067 over prior year due to a higher 2005 tax base, reflecting stronger growth in 2005 and 2006. Corporate income tax revenues increased due to improved economic conditions offset by lower instalments from the federal government as a result of lower growth in 2006 national corporate profits. The growth in personal and business incomes in 2006 combined with strong demand for residential and commercial property led to an increase of $410 million in other taxation revenues – mainly social service and property transfer taxes.

The $585 million decrease in natural resources revenue was due to a decline in natural gas royalties and lower market prices for electricity as a result of lower natural gas prices, plenty of water in the Pacific Northwest and low demand. This was offset by $156 million received under the *Softwood Lumber Agreement 2006 border tax*, and higher than anticipated mineral and metal prices. Revenue increases also included a $465 million increase in commercial Crown corporation net income. BC Hydro, ICBC and BCLC all experienced improvements in net income.

Expenses increased $1,565 million (5%) from 2005/06 in part due to an increase in salaries resulting from contract negotiations in 2006, increased spending on healthcare, education, and higher forest fire fighting costs.

## Changes from 2006/07 Budget

| | In Millions | | | |
|---|---|---|---|---|
| | Revenue | Expense | Forecast Allowance | Surplus |
| | $ | $ | $ | $ |
| **Surplus per Budget February 2006** | **35,364** | **33,914** | **(850)** | **600** |
| Increase in taxation revenue | 1,800 | | | 1,800 |
| Decreased natural resource revenue | (870) | | | (870) |
| Increased self-supported Crown corporations earnings | 714 | | | 714 |
| Increased investment earnings | 213 | | | 213 |
| Increased federal transfers | 657 | | | 657 |
| Increased other revenues | 626 | | | 626 |
| Interest savings | | (70) | | 70 |
| Negotiating framework incentives | | 264 | | (264) |
| Program spending | | 340 | | (340) |
| Unused forecast allowance | | | 850 | 850 |
| Subtotal of changes in actual results compared to budget | 3,140 | 534 | 850 | 3,456 |
| **Actual Results** | **38,504** | **34,448** | **0** | **4,056** |

Revenue was $3,140 million (9%) higher than budget due to the effects of robust economic performance, income growth, increased earnings from self-supported Crown corporations, and increased federal transfers due to a one time transfer of infrastructure funding.

Revenue from personal and corporate income taxes was $1,259 million higher than budget, of which $684 million represented better than expected 2005 tax return results. Increases in other taxation revenues, including social service tax revenue and property transfer tax are indicators of increased consumer spending and a strong housing market.

# Financial Statement Discussion and Analysis Report

Natural resource revenue was $870 million lower than budget reflecting lower gas prices. This was offset by an increase in Softwood Lumber Border Tax. Improvements over budget in earnings from self-supported Crowns are mainly derived from: higher premiums and rate increases on basic insurance from Insurance Corporation of British Columbia and higher earnings of BC Hydro resulting from lower energy costs and the inclusion of regulatory transfers in income. The increase in federal transfers included a one time payment to fund capital projects in British Columbia of $408 million.

Expenses were $534 million higher than budget including $264 million dollars spent under the incentive payments for contracts negotiated before their expiry date in 2006/07. Increased expense of $340 million in other programs was offset by interest costs being $70 million below budget.

The forecast allowance was not used as a result of the increased revenues over budget which is indicative of British Columbia's strong and robust economy.

## Net Liabilities and Accumulated Surplus (Deficit)

Analysis of net liabilities and accumulated surplus provides users with information to assess the government's overall financial position. Net liabilities are the amounts repayable by government before financing future operations.

In accordance with Canadian generally accepted accounting principles, the government's statement of financial position is presented on a net liabilities basis. Net liabilities represent the difference between a government's financial assets and its liabilities and is a measure of the future revenue required to pay for past transactions and events.

| | In Millions | | | Variance | |
|---|---|---|---|---|---|
| | 2006/07 Budget $ | 2006/07 Actual $ | 2005/06 Actual $ | 2006/07 Actual to Budget $ | 2006/07 vs 2005/06 $ |
| Financial assets | 24,285 | 26,585 | 25,260 | 2,300 | 1,325 |
| Less: liabilities | (53,051) | (49,818) | (51,030) | (3,233) | (1,212) |
| Net Liabilities | (28,766) | (23,233) | (25,770) | (5,533) | (2,537) |
| Less: non-financial assets | 27,797 | 27,569 | 25,603 | (228) | 1,966 |
| **Accumulated surplus (deficit)** | **(969)** | **4,336** | **(167)** | **(5,305)** | **(4,503)** |

The accumulated surplus (deficit) represents the sum of the current and prior years' operating results. At March 31, 2007, the accumulated surplus totaled $4,336 million, $5,305 million higher than budget due to a higher than forecast surplus. The $4,503 million change from deficit to surplus from the previous year reflects the 2006/07 operating surplus plus other comprehensive income of self-supported Crown corporations.

Financial assets ended the year $2,300 million higher than budget including a $1,166 million increase in cash and temporary investments, a $732 million increase in other financial assets and accounts receivable, a $837 million increase in equity in self-supported Crown, offset by a $435 million reduction in recoverable capital loans. Liabilities were $3,233 million lower than budget and $1,212 million less than the prior year, primarily due to a reduction in taxpayer-supported debt. Other changes from budget reflect the forecast allowance that was not required, and changes in deferred revenue and self-supported debt.

Non-financial assets typically represent resources that the government can use in the future to provide services, such as tangible capital assets. Non-financial assets increased by $1,966 million over the prior year due to the government's increased capital investment in the post-secondary education, health facilities and transportation sectors.

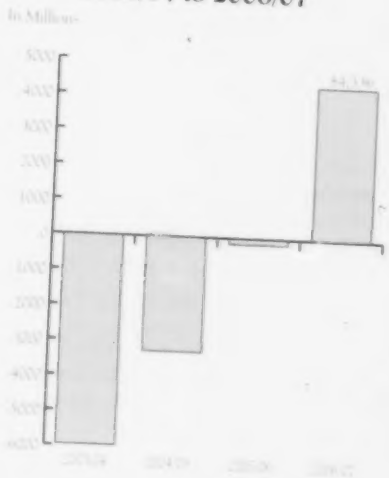
# Financial Statement Discussion and Analysis Report

## Accumulated Surplus (Deficit)

The accumulated deficit has been eliminated this fiscal year providing a strong and stable economic future for British Columbians. The province has reduced the accumulated deficit by $10,296 million over the last four years as a result of the growing economy and sound fiscal management.

The accumulated surplus (deficit) represents the sum of the current and all prior years' operating results. As at March 31, 2007 the accumulated surplus totaled $4,336 million.

2003/04 to 2006/07




## Components of Net Liabilities

### Financial Assets

Analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash if required to meet obligations.

In Millions

| | 2003/04 Actual | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cash, cash equivalents and temporary investments | 2,690 | 3,583 | 3,869 | 3,367 |
| Accounts receivable | 2,792 | 2,607 | 2,564 | 2,842 |
| Equity in self-supported Crown corporations and agencies | 3,020 | 3,168 | 3,448 | 4,396 |
| Loans for purchases of assets recoverable from agencies | 7,512 | 6,901 | 6,916 | 7,170 |
| Other financial assets | 8,120 | 8,527 | 8,463 | 8,810 |
| **Total financial assets** | **24,134** | **24,786** | **25,260** | **26,585** |

In 2006/07, financial assets increased by $1,325 million. The main areas resulting in the increase were the investment in self-supported Crown corporations of $948 million, which relates to the increase in earnings from self-supported Crown corporations and an increase in loans for purchase of assets recoverable from agencies of $254 million. Cash, cash equivalents and temporary investments decreased by $502 million in the year.

# Financial Statement Discussion and Analysis Report

## Liabilities

Analysis of liabilities provides users with information to understand and assess the demands on financial assets.

In Millions

| | 2003/04 Actual $ | 2004/05 Actual $ | 2005/06 Actual $ | 2006/07 Actual $ |
|---|---|---|---|---|
| Taxpayer-supported debt | 33,386 | 32,018 | 30,289 | 28,841 |
| Self-supported debt | 8,555 | 7,889 | 7,758 | 7,897 |
| **Total financial statement debt** | 41,941 | 39,907 | 38,047 | 36,738 |
| Accounts payable and other liabilities | 7,007 | 6,788 | 7,289 | 7,094 |
| Deferred revenue | 4,003 | 5,181 | 5,694 | 5,986 |
| **Total liabilities** | **52,951** | **51,876** | **51,030** | **49,818** |

Total financial statement debt decreased $1,309 million from 2005/06 and is $5,203 million lower than 2003/04. The decrease in debt is due to government's continuing operating surplus and reduced working capital requirements. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 24.

## Non-financial Assets

Analysis of non-financial assets provides users with information to assess the management of a government's infrastructure and long-term non-financial assets.

In Millions

| | 2003/04 Actual $ | 2004/05 Actual $ | 2005/06 Actual $ | 2006/07 Actual $ |
|---|---|---|---|---|
| Tangible capital assets | 22,316 | 23,219 | 24,756 | 26,626 |
| Other assets | 541 | 614 | 847 | 943 |
| **Total non-financial assets** | **22,857** | **23,833** | **25,603** | **27,569** |

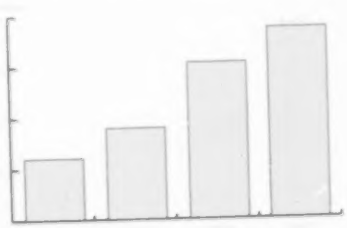
Management of non-financial assets has a direct impact on the level and quality of services a government is able to provide to its constituents. Non-financial assets typically represent resources that government can use in the future to provide services. At March 31, 2007, non-financial assets totaled $27,569 million which was $1,966 million higher than 2005/06 and $4,712 million higher than 2003/04. The majority of the province's non-financial assets reflects capital expenditures for tangible capital assets. The government has increased its investment in tangible capital assets by $1,870 million in 2006/07, $1,537 million in 2005/06, $903 million in 2004/05, and $610 million in 2003/04 to ensure service potential in future periods.

## Change in Capital Stock

This measure shows the impact of net changes to the governments stock of physical capital. An increasing trend demonstrates investment in infrastructure to provide service potential in future periods. The net value of total assets is also provided to allow users to assess the significance of annual changes.

Net annual investment increased by $1,870 million in 2006/07 and by $4,920 million since 2003/04. Total capital stock has also increased steadily over that period demonstrating that capital infrastructure is available to provide service in future periods

2003/04 to 2006/07



# Financial Statement Discussion and Analysis Report

## Net Liabilities and Accumulated Surplus (Deficit)

In Millions

| | 2003/04 Actual $ | 2004/05 Actual $ | 2005/06 Actual $ | 2006/07 Actual $ |
|---|---|---|---|---|
| Financial assets | 24,134 | 24,786 | 25,260 | 26,585 |
| Less: liabilities | (52,951) | (51,876) | (51,030) | (49,818) |
| **Net liabilities** | (28,817) | (27,090) | (25,770) | (23,233) |
| Less: non-financial assets | 22,857 | 23,833 | 25,603 | 27,569 |
| **Accumulated surplus (deficit)** | (5,960) | (3,257) | (167) | 4,336 |

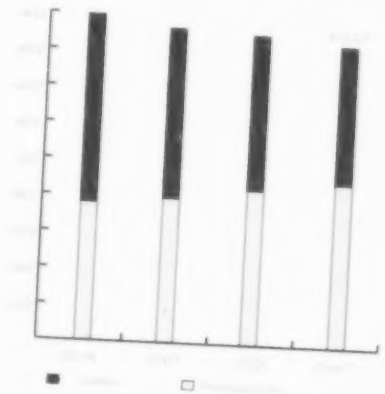
Net liabilities have decreased consistently each year since 2003/04. The accumulated surplus totaling $4,336 million is a $4,503 million increase from the previous year and $10,296 million increase since 2003/04. Although the province continues to invest in capital infrastructure, successive surpluses have meant these investments did not require additional borrowing.

## Change in Net Liabilities

Improvement in the net liabilities position provides capacity for increased capital infrastructure investment.

Net liabilities have declined steadily over the last three years and the province moved from a deficit to a surplus in 2006/07. However, the relationship between net liabilities and non-financial assets has changed significantly. Between fiscal years 2003/04 and 2006/07, a greater proportion of liabilities have arisen from government's investment in infrastructure projects offset by the decline in the province's accumulated operating deficit. This trend is indicative of BC's strong economy reflected in continued surpluses.

2003/04 to 2006/07

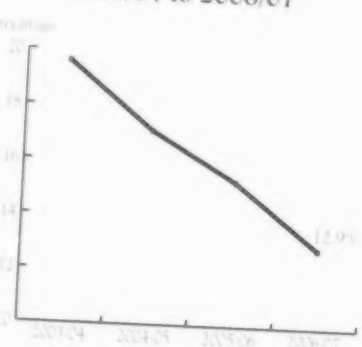


## Net Liabilities to GDP

The net liabilities to GDP ratio provides an indication of the province's ability to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.

The government's net liabilities to GDP has declined consistently between 2003/04 and 2006/07, decreasing the financial burden on the provincial economy and on future taxpayers. The decrease in net liabilities to GDP indicates the province is improving its ability to sustain program spending without a negative impact on the economy.

2003/04 to 2006/07

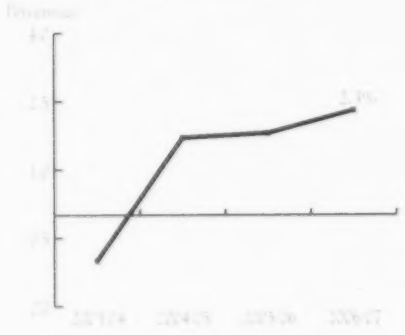


# Financial Statement Discussion and Analysis Report

## Surplus (Deficit) to GDP

2003/04 to 2006/07

The surplus (deficit) to GDP ratio is an indicator of sustainability. The consistent positive trend since 2003/04 shows that government operating requirements are decreasing at a greater rate than growth in GDP. An increasing trend means that government can maintain existing operations and reduce the debt burden or invest in infrastructure without a negative impact on the economy.



## Total Provincial Debt

Analysis of total provincial debt helps users to assess the extent of long-term liabilities and the government's ability to meet future debt obligations.

In Millions

| | 2003/04 Actual $ | 2004/05 Actual $ | 2005/06 Actual $ | 2006/07 Actual $ |
|---|---|---|---|---|
| Gross debt | 41,941 | 39,907 | 38,047 | 36,738 |
| Less: sinking funds assets | (4,619) | (4,515) | (4,059) | (3,798) |
| Third party guarantees and non-guaranteed debt | 413 | 447 | 397 | 407 |
| **Total provincial debt** | 37,735 | 35,839 | 34,385 | 33,347 |

When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is $3,391 million lower than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt and the inclusion of debt guarantees and non-guaranteed debt. The debt decreased by $1,038 million in 2006/07 is primarily due to the operating surplus reducing the requirement to borrow. As at March 31, 2007, the total provincial debt was $33,347 million, $3,243 million lower than budget and $1,038 million lower than 2005/06. This includes $25,874 million of taxpayer-supported debt, which was $2,009 million lower than budget and $1,311 million lower than 2005/06.

The government is committed to maintain a downward trend in the taxpayer-supported debt to GDP ratio. A declining ratio means that debt will not grow faster than the economy, so that future generations will not be left with a debt burden that they cannot afford. The ratio of taxpayer-supported debt to GDP is a key measure used by financial analysts and investors to assess a province's ability to repay debt and is a key measure monitored by the bond rating agencies.

# Financial Statement Discussion and Analysis Report

## Strong Credit Rating

Reflecting the province's strong fiscal performance, British Columbia has received credit rating upgrades from all three credit rating agencies. In 2006/07, Moody's Investors Service Inc. upgraded the province to Aaa (2006: Aa1); Standard and Poor's upgraded the province to AAA (2006: AA), and Dominion Bond Rating Services upgraded the province to AA (high) (2006: AA).

### Credit Ratings June 2007

| | Rating Agency[1] | | |
|---|---|---|---|
| Province | Moody's Investors Service Inc. | Standard and Poor's | Dominion Bond Rating Service |
| British Columbia | Aaa | AAA | AA (high) |
| Alberta | Aaa | AAA | AAA |
| Saskatchewan | Aa1 | AA | AA(low) |
| Manitoba | Aa1 | AA- | A(high) |
| Ontario | Aa1 | AA | AA |
| Quebec | Aa2 | A+ | A(high) |
| New Brunswick | Aa1 | AA- | A(high) |
| Nova Scotia | Aa2 | A | A |
| Prince Edward Island | Aa2 | A | A(low) |
| Newfoundland | Aa2 | A | A(low) |
| Canada | Aaa | AAA | AAA/AA(high) |

[1] The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

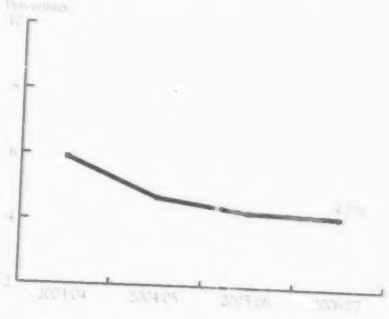
A more comprehensive overview of provincial debt, including key debt indicators is located on pages 109.

## Public Debt Charges to Revenue (the Interest Bite)

The public debt charges to revenue indicator is often referred to as the "interest bite". This provides users with the percentage of the province's revenue used to pay interest on debt. If a decreasing proportion of provincial revenue is used to pay interest on provincial debt, more money is left to provide government services.

The interest bite has decreased over the last 3 years. In 2006/07, the province spent 4.2 cents of each revenue dollar on interest on the provincial debt.

2003/04 to 2006/07



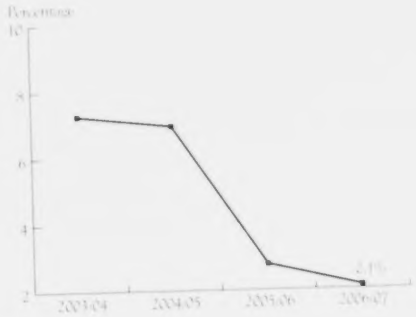
# Financial Statement Discussion and Analysis Report

## Non–Hedged Foreign Currency Debt to Total Provincial Debt

2003/04 to 2006/07

The ratio of non–hedged foreign currency debt to total provincial debt shows the degree of vulnerability of a government's public debt position to swings in exchange rates.

Since 2003/04, the government has reduced its foreign currency debt, thereby reducing the province's vulnerability to changes in exchange rates.




## Risks and Uncertainties

The government's main exposure to risks and uncertainties arises from variables which the government does not directly control. These include:

- economic factors such as commodity prices, personal income, retail sales, population growth, and unexpected shocks such as terrorism, avian flu and forest fires
- outcomes from litigation, arbitration and negotiations with third parties
- changes in federal transfers
- Utilization rates for government services such as health care, children and family services, or employment assistance
- exposure to interest rate fluctuations, foreign exchange rates and credit risk
- changes in generally accepted accounting principles

The following are the approximate effect of changes in some of the key variables on the surplus.

**Key Fiscal Sensitivities**[1]

| Variable | Increase Of | Annual Fiscal Impact ($ millions) |
|---|---|---|
| Nominal GDP | 1% | $150 to $250 |
| Lumber prices (US$/thousand board feet) | $50 | $75 to $125 [2] |
| Natural gas prices (Cdn$/gigajoule) | $1 | $300 to $350 |
| Interest rate | 1 percentage point | ($90) |
| Debt | $500 million | ($23) |

[1] Individual circumstances and inter–relationships between the variables may cause the actual variances to be higher or lower than the estimates shown.

[2] Sensitivity relates to stumpage revenue only. Depending on market conditions, changes in stumpage revenues may be offset by changes in border tax revenues.

Although the government is unable to directly control these variables, strategies have been implemented to mitigate these risks and uncertainties. The development of taxation, financial and corporate regulatory policy to reinforce British Columbia's position as an attractive place to invest and create jobs will help offset the increase in competition for investment as a result of globalization of economic and financial markets. The government will continue to apply a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporation and schools, universities, colleges and health authorities (SUCH) sector forecasts. The use of forecast allowances recognizes the uncertainties in predicting future economic developments.

Risk management in relation to debt is discussed in Note 19 on page 56 of the Notes to the Consolidated Financial Statements.

# *Summary Financial Statements*

# *Province of British Columbia*

*For the Fiscal Year Ended*
*March 31, 2007*

BRITISH
COLUMBIA
The Best Place on Earth

# *Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia*

Responsibility for the integrity and objectivity of the Summary Financial Statements for the Government of the Province of British Columbia rests with the government. The Comptroller General prepares these financial statements in accordance with generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains financial management and internal control systems. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, Crown corporations, agencies, school districts, universities, colleges, institutes and health organizations to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 11 of the *Auditor General Act*.

Annually, the financial statements are tabled in the legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly with the results of its examination and any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:

CAROLE TAYLOR

Chair, Treasury Board

# Report of the Auditor General of British Columbia

## ON THE SUMMARY FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA

*To the Legislative Assembly of the Province of British Columbia*

I have audited the summary financial statements of the Government of the Province of British Columbia consisting of the consolidated statement of financial position as at March 31, 2007, and the consolidated statements of operations, change in net liabilities, and cash flow for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these summary financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2007 and the results of its operations, change in net liabilities and cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia*
*June 15, 2007*

Errol Price, CA
Acting Auditor General

# Summary Financial Statements
# Consolidated Statement of Financial Position
# as at March 31, 2007

| | Note | In Millions 2007 | 2006 |
|---|---|---|---|
| | | $ | $ |
| **Financial Assets** | | | |
| Cash and cash equivalents | | 2,418 | 2,934 |
| Temporary investments | | 949 | 935 |
| Accounts receivable | 3 | 2,842 | 2,564 |
| Inventories for resale | 4 | 75 | 93 |
| Due from other governments | 5 | 881 | 674 |
| Due from self-supported Crown corporations and agencies | 6 | 554 | 443 |
| Equity in self-supported Crown corporations and agencies | 7 | 4,396 | 3,448 |
| Loans, advances and mortgages receivable | 8 | 992 | 951 |
| Other investments | 9 | 2,510 | 2,243 |
| Sinking fund investments | 10 | 3,798 | 4,059 |
| Loans for purchase of assets, recoverable from agencies | 11 | 7,170 | 6,916 |
| | | 26,585 | 25,260 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | 12 | 6,072 | 6,230 |
| Due to other governments | 13 | 915 | 913 |
| Due to Crown corporations, agencies and trust funds | 14 | 105 | 144 |
| Deferred revenue | 15 | 5,986 | 5,694 |
| Employee pension plans | 16 | 2 | 2 |
| Taxpayer-supported debt | 17 | 28,841 | 30,289 |
| Self-supported debt | 18 | 7,897 | 7,758 |
| | | 49,818 | 51,030 |
| Net assets (liabilities) | 20 | (23,233) | (25,770) |
| **Non-financial Assets** | | | |
| Tangible capital assets | 21 | 26,626 | 24,756 |
| Prepaid program costs | 22 | 592 | 532 |
| Other assets | 23 | 351 | 315 |
| | | 27,569 | 25,603 |
| **Accumulated surplus (deficit)** | 24 | **4,336** | **(167)** |
| Measurement uncertainty | 2 | | |
| Contingencies and contractual obligations | 25 | | |
| Restricted assets | 26 | | |
| Significant events | 31 | | |
| Subsequent events | 34 | | |

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with Canadian generally accepted accounting principles.

CHERYL WENEZENKI-YOLLAND
Comptroller General

# Summary Financial Statements
# Consolidated Statement of Operations
# for the Fiscal Year Ended March 31, 2007

| | In Millions | | |
|---|---|---|---|
| | 2007 | | 2006 |
| | Estimates (Note 32) $ | Actual $ | Actual $ |
| **Revenue** | | | |
| Taxation (Note 27) | 16,218 | 18,018 | 16,429 |
| Contributions from the federal government | 5,729 | 6,386 | 5,825 |
| Natural resources | 4,852 | 3,982 | 4,567 |
| Fees and licences | 3,622 | 3,791 | 3,666 |
| Miscellaneous | 2,153 | 2,610 | 2,317 |
| Net earnings of self-supported Crown corporations and agencies (Note 7) | 1,971 | 2,685 | 2,220 |
| Investment income | 819 | 1,032 | 949 |
| | 35,364 | 38,504 | 35,973 |
| **Expense** (Note 28) | | | |
| Health | 12,833 | 13,253 | 12,838 |
| Education | 9,162 | 9,774 | 9,047 |
| Social services | 3,040 | 2,892 | 2,798 |
| Interest | 2,304 | 2,234 | 2,181 |
| Other | 1,953 | 1,278 | 1,094 |
| Natural resources and economic development | 1,483 | 1,664 | 1,630 |
| Protection of persons and property | 1,301 | 1,334 | 1,416 |
| Transportation | 1,173 | 1,251 | 1,203 |
| General government | 665 | 768 | 676 |
| | 33,914 | 34,448 | 32,883 |
| Surplus (deficit) for the year before unusual items | 1,450 | 4,056 | 3,090 |
| Forecast allowance | (850) | | |
| **Surplus (deficit) for the year** | **600** | **4,056** | **3,090** |
| Accumulated surplus (deficit)—beginning of year as restated (Note 24) | | (167) | (3,257) |
| Other comprehensive income from self-supported Crown corporations and agencies (see page 83) | | 447 | 0 |
| **Accumulated surplus (deficit)—end of year** | | **4,336** | **(167)** |

The accompanying notes and supplementary statements are an integral part of these financial statements.

# Summary Financial Statements
# Consolidated Statement of Change in Net Liabilities
# for the Fiscal Year Ended March 31, 2007

| | In Millions | | |
|---|---|---|---|
| | 2007 | | 2006 |
| | Estimates[1] | Actual | Actual |
| | $ | $ | $ |
| Surplus (deficit) for the year | 600 | 4,056 | 3,090 |
| Effect of change in tangible capital assets | | | |
| Acquisition of tangible capital assets | (3,488) | (3,366) | (3,101) |
| Amortization of tangible capital assets | 1,430 | 1,475 | 1,376 |
| Disposals and valuation adjustments | (98) | 21 | 187 |
| | (2,156) | (1,870) | (1,538) |
| Effect of change in | | | |
| Prepaid program costs | 6 | (60) | (70) |
| Other assets | | (36) | (164) |
| | 6 | (96) | (234) |
| Effect of self-supported Crown corporations and agencies other comprehensive income | | 447 | |
| (Increase) decrease in net liabilities | (1,550) | 2,537 | 1,318 |
| Net assets (liabilities)—beginning of year | (27,216) | (25,770) | (27,088) |
| **Net assets (liabilities)—end of year** (Note 20) | **(28,766)** | **(23,233)** | **(25,770)** |

[1] Certain budget numbers have been restated to be consistent with the reporting of actuals on the gross basis.

The accompanying notes and supplementary statements are an integral part of these financial statements.

# Summary Financial Statements
# Consolidated Statement of Cash Flow
# for the Fiscal Year Ended March 31, 2007

| | In Millions | | | |
|---|---|---|---|---|
| | 2007 | | | 2006 |
| | Receipts | Disbursements | Net | Net |
| | $ | $ | $ | $ |
| **Operating Transactions** | | | | |
| Surplus (deficit) for the year[1] | | | 4,056 | 3,090 |
| Non-cash items included in surplus (deficit) | | | | |
| Amortization of tangible capital assets | | | 1,475 | 1,376 |
| Amortization of public debt deferred revenue and deferred charges | | | (5) | (76) |
| Concessionary loan adjustments (decreases) | | | | (1) |
| Valuation adjustments | | | 121 | 215 |
| Net earnings of self-supported Crown corporations and agencies | | | (2,685) | (2,220) |
| Temporary investments decreases (increases) | | | (14) | 43 |
| Accounts receivable decreases (increases) | | | (348) | (116) |
| Due from other governments decreases (increases) | | | (207) | (40) |
| Due from self-supported Crown corporations and agencies (increases) decreases | | | (111) | 101 |
| Accounts payable increases (decreases) | | | (158) | 489 |
| Due to other governments increases (decreases) | | | 2 | 22 |
| Due to Crown corporations, agencies and trust funds increases (decreases) | | | (39) | (8) |
| Employee pension plans payments | | | | (1) |
| Items applicable to future operations increases | | | 194 | 257 |
| Contributions of self-supported Crown corporations and agencies | | | 2,184 | 1,940 |
| Cash derived from (used for) operations | | | 4,465 | 5,071 |
| **Capital Transactions** | | | | |
| Tangible capital assets (acquisitions) | 7 | (3,366) | (3,359) | (2,926) |
| Cash derived from (used for) capital | 7 | (3,366) | (3,359) | (2,926) |
| **Investment Transactions** | | | | |
| Loans, advances and mortgages receivable (issues) | 109 | (178) | (69) | (211) |
| Other investments—net decreases (increases) | | (269) | (269) | (258) |
| Sinking fund investments | 462 | (201) | 261 | 456 |
| Cash derived from (used for) investments | 571 | (648) | (77) | (13) |
| Sub-total cash (requirements) | | | 1,029 | 2,132 |

# Summary Financial Statements
# Consolidated Statement of Cash Flow
# for the Fiscal Year Ended March 31, 2007—Continued

| | In Millions | | | |
|---|---|---|---|---|
| | 2007 | | | 2006 |
| | Receipts $ | Disbursements $ | Net $ | Net $ |
| Sub-total cash (requirements) carried forward from previous page... | | | 1,029 | 2,132 |
| **Financing Transactions**[2] | | | | |
| Public debt (decreases) increases | 16,494 | (17,774) | (1,280) | (1,752) |
| Derived from Warehouse Borrowing Program investment | 500 | (500) | | |
| Derived from (used for) purchase of assets, recoverable from agencies | (4,269) | 4,004 | (265) | (52) |
| Cash derived from (used for) financing | 12,725 | (14,270) | (1,545) | (1,804) |
| Increase (decrease) in cash and cash equivalents | | | (516) | 328 |
| Cash and cash equivalents—beginning of year | | | 2,934 | 2,606 |
| **Cash and cash equivalents—end of year** | | | 2,418 | 2,934 |
| Cash and cash equivalents are made up of: | | | | |
| Cash | | | 1,070 | 1,265 |
| Cash equivalents | | | 1,348 | 1,669 |
| | | | 2,418 | 2,934 |

[1] Interest received during the year was $1,013 million (2006: $944 million). Interest paid during the year was $2,167 million (2006: $2,137 million). Interest received is made up of interest income from the statement of operations in the amount of $1,032 million (2006: $949 million) less the change in accrued interest receivable in the amount of $19 million (2006: $5 million). Interest paid is made up of interest expense from the statement of operations in the amount of $2,234 million (2006: $2,181 million) less the change in accrued interest payable in the amount of $67 million (2006: $44 million).

[2] Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007

## 1. Significant Accounting Policies

(a) BASIS OF ACCOUNTING

The government's Summary Financial Statements are prepared in accordance with generally accepted accounting principles (GAAP) for senior governments as required by the *Budget Transparency and Accountability* Act (BTAA) and as recommended by the independent Public Sector Accounting Board of The Canadian Institute of Chartered Accountants.

(b) REPORTING ENTITY

These financial statements include the accounts of organizations that meet the criteria of control (by the province) as established under GAAP. The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements may be found on page 71 – 73. Trusts administered by government or government organizations are excluded from the reporting entity.

(c) PRINCIPLES OF CONSOLIDATION

Taxpayer–supported Crown corporations, agencies, and the school districts, universities, colleges, institutes, health organizations (SUCH) and the Consolidated Revenue Fund (CRF) are consolidated using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis.

Self–supported Crown corporations, agencies, entities and government business partnerships are consolidated using the modified equity basis of consolidation.

The definitions of these consolidation methods can be found on page 122.

Adjustments are made for Crown corporations, agencies and entities whose fiscal year ends are different from the government's fiscal year end of March 31. These Crown corporations, agencies and entities consist of the British Columbia Assessment Authority, the Insurance Corporation of British Columbia, the British Columbia Railway Company, and all school districts.

The basis for segment disclosure is the major functions of government as defined by Statistics Canada's Financial Management System of Government Statistics. This is used to prepare the sector information found on page 74 – 81.

(d) SPECIFIC ACCOUNTING POLICIES

*Revenue*

All revenue is recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporate income tax, which is recorded on a cash basis.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met. Government transfers are deferred if they are restricted for specific programs such as health transfers.

Tax credits/offsets are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue but are not considered valuation allowances.

*Expense*

The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issue costs.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability, net of pension plan assets, and amortization of the government's share of any experience gains or losses, less contributions made by members. The estimated total cost of government's share of plan amendments related to past service is expensed in the year the plan is amended.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 1. Significant Accounting Policies—Continued

Government transfers include grants, entitlements and transfers under agreements, as defined in the definitions on page 123. Government transfers are recognized as expenses in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made. Transfers are deferred if the amount represents prepaid operating expenses.

*Assets*

Assets are recorded to the extent they represent cash and claims upon outside parties, items held for resale to outside parties, prepaid expenses, deferred charges or tangible capital assets acquired as a result of events and transactions prior to year end.

*Financial Assets*

Cash and cash equivalents include cash on hand, demand deposits and short–term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. These short–term investments generally have a maturity of three months or less and are held for the purpose of meeting short–term cash commitments rather than for investing.

Temporary investments and Warehouse Program Investments include short–term investments recorded at the lower of cost or market value. The fair values of short–term investments approximate their carrying values because of the short–term maturity of these instruments.

Inventories for resale include property that has been purchased, or for which development costs have been incurred, and that is held for ultimate resale or lease to outside parties. Inventories for resale are recorded at the lower of cost or net realizable value.

Equity in self–supported Crown corporations and agencies represents the province's investment (including long–term advances) in those self–supported Crown corporations and agencies at cost, adjusted for increases/decreases in the investees' net assets, and other comprehensive income.

Loans for purchase of assets recoverable from agencies are recorded at maturity value, less unamortized premium or discount, deferred foreign exchange gains or losses and sinking fund balances. Premium/discount is amortized on a constant yield basis.

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are recorded at the principal amount less valuation allowance, are secured by real estate and are repayable over periods ranging up to 30 years. Concessionary loans and mortgages are recorded at net present value at issue and related present value discounts are expensed. Valuation allowances are made when collectibility is considered doubtful. Interest is recognized on an accrual basis except when collection is uncertain it is recognized on the cash basis.

Other investments are recorded at the lower of cost of acquisition (which may be adjusted by attributed income) or estimated current value. Valuation adjustments are made when the value of investments is impaired.

Sinking fund investments are cash and marketable securities held specifically for the purpose of repaying outstanding debt at maturity.

*Tangible Capital Assets*

Tangible capital assets are recorded at historical cost, less accumulated amortization. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight–line basis except for some transportation equipment which is amortized using the sinking fund method.

All significant tangible capital assets of government organizations and operations have been capitalized. Intangible assets and items inherited by right of the Crown, such as forest, water and mineral resources, are not recognized in these financial statements. Crown land is capitalized at a nominal value of one dollar.

The value of collections (artifacts, specimens and documents) has been excluded from the statement of financial position. When collections are purchased these items are expensed.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 1. Significant Accounting Policies—Continued

*Liabilities*

All liabilities are recorded to the extent they represent claims payable to outside parties as a result of events and transactions prior to year end. This includes probable losses on loan guarantees issued by the province, contingent liabilities (when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis) and unfunded pension liabilities.

Guaranteed debt includes guarantees by the minister of finance, made through specific agreements or legislation, to repay promissory notes, bank loans, line of credit, mortgages and other securities. Loss provisions on guaranteed debt are recorded when it is likely that a loss will occur. The amount of the loss provision represents the best estimate of future payments less recoveries. The loss provision is recorded as a liability and an expense in the year determined and is adjusted as necessary to ensure it equals the expected payout of the guarantee.

*Employee Pension Plans (Unfunded Pension Liabilities)*

The province accounts for employee pension plans by recognizing a liability and an expense in the reporting period in which the employee has provided service. The amount is calculated using the accrued benefit actuarial cost method. Where plans are in a net asset position and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. Changes in net liabilities/assets, which arise as a result of actuarial gains and losses, are amortized on a straight–line basis over the average remaining service period of employees active at the date of the adjustments. Past service costs from plan amendments are recognized in full in the year of the amendment.

Unfunded pension liabilities of the Members of the Legislative Assembly Superannuation Account represent the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the account.

*Public Debt*

Public debt represents the direct debt obligations of the Province of British Columbia, including borrowings incurred for government operating purposes, the acquisition of capital assets, re–lending to authorized government bodies and borrowings in advance of future requirements under the Warehouse Borrowing Program. Public debt consists of short–term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and unrealized foreign exchange gains or losses.

Public debt is reported under two categories:

(i) Taxpayer–supported debt—includes direct debt used for government operating and capital purposes, the debt of those Crown corporations, agencies and SUCH sector entities who require an operating or debt servicing subsidy from the provincial government and the debt of an entity that is fully consolidated within these financial statements.

(ii) Self–supported debt—includes the portion of debt of commercial Crown corporations, agencies and entities that has been borrowed through the government's fiscal agency loan program. It does not include all debt of commercial Crown corporations and agencies, as these entities are consolidated on the modified equity basis. Commercial Crown corporations and agencies fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self–supported debt includes debt of the Warehouse Borrowing Program.

Debt premium/discount is amortized on a constant yield basis. Unamortized premium/discount on bonds called and refinanced is amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 1. Significant Accounting Policies—Continued

*Foreign Currency Translation*

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at year end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a component of sinking funds and of public debt and loans for purchase of assets, recoverable from agencies and amortized over the remaining terms of the related items on a straight-line basis. Non-monetary assets and liabilities are translated at historical rates of exchange.

*Derivative Financial Instruments*

The province is a party to financial instruments with off-balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off-balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts earned and expenses incurred under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the lesser of the remaining term of the contract or the term of the related debt.

*Other Comprehensive Income*

In April 2005, the Canadian Institute of Chartered Accountants introduced new accounting standards in dealing with the recognition of other comprehensive income. The new standards are in effect for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Some Crown corporations and agencies within the government reporting entity have elected to adopt these new standards early. The GAAP for public sector accounting does not recognize other comprehensive income in relation to taxpayer-supported crowns. Therefore, any transactions relating to other comprehensive income in the taxpayer-supported Crown corporation statements have been reversed. Any recognition of other comprehensive income for self-supported Crown corporations has been reflected in the equity in self-supported Crown corporations and agencies and in the accumulated surplus (deficit).

## (e) CHANGES IN ACCOUNTING TREATMENT

*Change in accounting for controlled for-profit entities at universities*

During the year, the universities changed their accounting policy on consolidation. In previous years, the province and the universities fully consolidated the controlled for-profit entities of universities.

Under the new accounting policy, universities have included their controlled for-profit entities in the financial statements using the equity method of accounting. The activities of these entities are not considered core to the mandate of the universities and management believes that the use of the equity method is more representative of both the relationship and business purpose of these organizations. The province makes no changes to the universities' treatment of these for-profit entities on consolidation.

The impact of this change in accounting policy has resulted in a change in: assets $165 million decrease (2006: $83 million decrease), liabilities $165 million decrease (2006: $83 million decrease), revenue $14 million decrease (2006: $16 million decrease), expense $14 million decrease (2006: $16 million decrease).

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 2. Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in these financial statements as identified in the table below for items with a variability of over $10 million:

In Millions

| Program Area | Actual[1] Amount Recorded | Measurement Uncertainty Minimum | Measurement Uncertainty Maximum | % Range Minimum | % Range Maximum |
|---|---|---|---|---|---|
| | $ | $ | $ | | |
| Health and Social Transfer payments[2] | 4,473 | 4,423 | 4,523 | 1 % | 1 % |
| Personal Income Tax | 6,905 | 6,705 | 7,205 | 3 % | 4 % |
| Variability is based on the potential differences between the estimates for the economic factors used in calculating the accruals and actual economic results. | | | | | |
| Litigation and Arbitration | 102 | 87 | 117 | 15 % | 15 % |
| Crime Victim Assistance Program | 126 | 120 | 132 | 5 % | 5 % |
| Variability exists in the outcomes of litigation and arbitration. | | | | | |
| Provision for Doubtful Account | 687 | 653 | 721 | 5 % | 5 % |
| Accrued Expenditure Liability | 83 | 75 | 91 | 10 % | 10 % |
| Variability exists in the accruals as the recorded numbers are based on the province's best estimate of expected results. | | | | | |
| Softwood Lumber Payments | 156 | 140 | 172 | 10 % | 10 % |
| Variability exists in the recorded amounts due to estimates used in determining the recovery from federal government. | | | | | |
| Logging Tax Revenue | 64 | 64 | 94 | 0 % | 47 % |
| Variability exists in the logging tax revenue accruals due to the estimates used in determining returns of softwood lumber duties on taxpayer's taxable income. | | | | | |

See note 25 with respect to the measurement uncertainty related to environmental remediation liabilities.

[1] Actual amount recorded for each program area may not represent the entire amount in financial statement accounts.
[2] Health and Social Transfer payments are transfers from the federal government based on population estimates and the federal budget.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 3. Accounts Receivable

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Trade accounts receivable | 2,050 | 1,880 |
| Taxes receivable | 1,250 | 1,156 |
| Accrued interest | 265 | 284 |
| | 3,565 | 3,320 |
| Provision for doubtful accounts | (723) | (756) |
| | **2,842** | **2,564** |

## 4. Inventories for Resale

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Properties | 20 | 41 |
| Other | 55 | 52 |
| | **75** | **93** |

## 5. Due from Other Governments

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Government of Canada: | | |
| Current | 741 | 523 |
| Long-term | 106 | 119 |
| Provincial governments: | | |
| Current | 19 | 18 |
| Local governments:[1] | | |
| Current | 15 | 14 |
| | **881** | **674** |

[1] Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 6. Due from Self–supported Crown Corporations and Agencies

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| British Columbia Hydro and Power Authority | 346 | 265 |
| British Columbia Lottery Corporation | 206 | 176 |
| Columbia Power Corporation | 2 | 2 |
| | 554 | 443 |

*See* Statement of Financial Position for Self–supported Crown Corporations and Agencies on page 82 for details.

## 7. Equity in Self–supported Crown Corporations and Agencies

| | In Millions | | | | |
|---|---|---|---|---|---|
| | 2007 | | | | 2006 |
| | Investments | Unremitted Earnings | Other Comprehensive Income | Total | Total |
| | $ | $ | $ | $ | $ |
| British Columbia Hydro and Power Authority | | 1,783 | | 1,783 | 1,707 |
| British Columbia Railway Company | 107 | 65 | | 172 | 143 |
| British Columbia Transmission Corporation | 20 | 19 | | 39 | 37 |
| Columbia Power Corporation | 276 | 41 | | 317 | 304 |
| Insurance Corporation of British Columbia | | 1,623 | 447 | 2,070 | 1,242 |
| Provincial Capital Commission | | 15 | | 15 | 15 |
| | 403 | 3,546 | 447 | 4,396 | 3,448 |

### Change in Equity in Self–supported Crown Corporations and Agencies

| | | | | | |
|---|---|---|---|---|---|
| Balance—beginning of year | 403 | 3,019 | | 3,422 | 3,219 |
| Prior period adjustments | | 26 | | 26 | (51) |
| Balance—beginning of year restated | 403 | 3,045 | | 3,448 | 3,168 |
| Increase (decrease) in other comprehensive income | | | 447 | 447 | |
| Net earnings of self–supported Crown corporations and agencies | | 2,685 | | 2,685 | 2,220 |
| Contributions paid to the Consolidated Revenue Fund | | (1,941) | | (1,941) | (1,727) |
| Adjustments to contributions paid | | (243) | | (243) | (213) |
| **Balance—end of year** | 403 | 3,546 | 447 | 4,396 | 3,448 |

*See* Statement of Financial Position for Self–supported Crown Corporations and Agencies and Summary of Results of Operations and Statement of Equity for Self–supported Crown Corporations and Agencies on pages 82 – 83 for details.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 8. Loans, Advances and Mortgages Receivable

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| **Loans and Advances** | $ | $ |
| BC student loans | 742 | 674 |
| Land Tax Deferment loans | 198 | 178 |
| Construction loans to social housing projects | 85 | 97 |
| Industrial Development Fund commercial loans | 67 | 83 |
| Accountable advances | 19 | 34 |
| Miscellaneous | 73 | 60 |
| | 1,184 | 1,126 |
| Provision for doubtful accounts | (247) | (223) |
| | 937 | 903 |
| **Mortgages Receivable** | | |
| Reconstruction Program | 51 | 44 |
| Miscellaneous | 4 | 4 |
| | 55 | 48 |
| | **992** | **951** |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 8. Loans, Advances and Mortgages Receivable—Continued

The BC Student Loan Program provides loans to borrowers for higher education. Borrowers are required to repay these loans through a contracted service provider to the province, with a floating interest rate of prime plus 2.5% or a fixed rate of prime plus 5%. Amortization of the loans is usually set for 174 months, but borrowers can extend that amortization to a maximum of 234 months. Defaulted loans are due on demand with interest at a floating rate of prime plus 2.5%. The BC Student Loan Program also administers defaulted student loans issued by financial institutions under a guaranteed and risk sharing agreement with the province. Defaulted risk sharing loans arise due to bankruptcy or death of the borrower while attending school.

The Land Tax Deferment Program allows eligible owners to defer payment of all, or a portion of, annual property taxes due on principal residences. Eligible individuals are either 55 years or older, a surviving spouse, or a person with a disability. Simple interest is charged on the deferred taxes at a rate set by the minister of small business and revenue. This rate will not exceed 2.0% below the prime lending rate of the principal banker to the government. The deferred taxes, administration fees, plus outstanding interest must be repaid before the residence can be legally transferred to a new owner, other than directly to a surviving spouse.

Construction loans are provided by British Columbia Housing Management Commission (BCHMC), a taxpayer–supported Crown corporation and an approved lender under the *National Housing Act*. BCHMC provides construction loans for societies that are building approved projects under social housing programs. Interest is payable at the province's weighted average borrowing rate for short–term funds, plus administration costs. Loans are repaid at substantial completion of each project from financing arranged with private lenders.

The Industrial Development Fund provided loans to assist the establishment of new industry, the introduction of new technology to existing industry, or the development of a region of British Columbia. These loans incur interest at rates ranging from 0% to 10%. The Industrial Development Fund was eliminated pursuant to the repeal of the *Industrial Development Incentive Act* under the *Budget Measures Implementation Act, 2002*. No loans were issued after March 31, 2002.

Accountable advances represent funds issued for program costs that have not yet been expended in accordance with the applicable agreements.

The Reconstruction Program provides financial assistance to homeowners to pay for repairs for homes with premature building envelope failure. The financial assistance is provided in the form of subsidized interest loans, no interest loans or deferred payment loans, and is secured by registered mortgages. This program is administered by the Homeowner Protection Office.

Miscellaneous mortgages receivable have terms ranging from less than one year to twenty years, with some loans being payable on demand. Interest rates range from 1.875% to 13.5%.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 9. Other Investments

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Equity investments | 936 | 791 |
| Municipal, corporate and other bonds | 407 | 480 |
| Commercial loans and investments | 379 | 350 |
| Government of Canada bonds | 262 | 223 |
| Provincial government bonds | 241 | 180 |
| Pooled investment portfolios | 121 | 107 |
| British Columbia Ferry Services Inc. | 75 | 75 |
| Miscellaneous | 149 | 97 |
| | 2,570 | 2,303 |
| Provision for doubtful accounts | (60) | (60) |
| | 2,510 | 2,243 |

Equity investments have a market value of $1,135 million (2006: $929 million). They include investments in Canadian, U.S. and international equity markets. Also included in equity investments are investments by the University of British Columbia and University of Victoria in subsidiaries that are reported on the equity basis. The total investment reported for these entities is $4 million (2006: $1 million).

Municipal, corporate and other bonds have a market value of $406 million (2006: $482 million) with yields ranging from 0.92% to 6.62%.

Commercial loans and investments are recorded at the lower of cost of acquisition adjusted by attributed income and market value. Commercial loans and investments include Columbia Basin Trust's $298 million (2006: $290 million) investment in power development joint ventures, and $55 million (2006: $55 million) held by the Consolidated Revenue Fund, which a full provision has been made for.

Government of Canada bonds have a market value of $265 million (2006: $228 million), with yields ranging from 3.00% to 7.25%. Maturity dates range from June 1, 2007 to July 26, 2035.

Provincial bonds of various provinces have a market value of $257 million (2006: $186 million), with yields ranging from 3.50% to 7.60%. Maturity dates range from September 1, 2007 to March 8, 2033.

Pooled investment portfolios consist mainly of units in various funds of the British Columbia Investment Management Corporation. These funds' investments consist primarily of debt and equity holdings of privately held companies. Pooled investment portfolios have a market value of $119 million (2006: $106 million).

As part of a secured debenture amendment and preferred share surrender agreement dated May 23, 2003, the province exchanged its interest in British Columbia Ferry Corporation for 75,477 preferred shares in British Columbia Ferry Services Inc. These non–voting preferred shares are valued at $1,000 per share and entitle the province to a fixed cumulative dividend at a rate of 8% of the issue price.

Miscellaneous investments consist of other pooled funds as well as various forms of income securities, notes and treasury bills. The market value of miscellaneous investments is $147 million (2006: $102 million).

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 10. Sinking Fund Investments

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| Taxpayer–supported sinking fund investments | 3,065 | 3,213 |
| Self–supported sinking fund investments | 733 | 846 |
| | **3,798** | **4,059** |

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| Cash | 26 | - |
| Government of Canada bonds | 7 | 54 |
| Provincial government bonds | 826 | 906 |
| Pooled investment portfolios | 2,406 | 2,488 |
| Local government bonds | 433 | 506 |
| Miscellaneous | 100 | 105 |
| | **3,798** | **4,059** |

Government of Canada bonds have a market value of $7.1 million (par value $6.9 million), with yields ranging from 3.96% to 4.15%. Maturity dates range from October 1, 2007 to June 1, 2013.

Provincial bonds of various provinces have a market value of $907.3 million (par value $1,467.4 million), with yields ranging from 3.53% to 5.49%. Maturity dates range from June 9, 2007 to February 15, 2040.

Pooled investment portfolios consist of units in the British Columbia Investment Management Corporations' bond funds, which mainly consist of various governments bonds and short term unitized funds that hold money market instruments.

Local government bonds mainly consist of debt issued by BC Municipal Financing Authority.

## 11. Loans for Purchase of Assets, Recoverable from Agencies

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| British Columbia Hydro and Power Authority | 7,134 | 6,882 |
| British Columbia Transmission Corporation | 30 | 30 |
| Improvement districts | 6 | 4 |
| | **7,170** | **6,916** |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 12. Accounts Payable and Accrued Liabilities

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Trade accounts payable | 2,419 | 2,708 |
| Other accrued estimated liabilities[1] | 1,450 | 1,358 |
| Accrued employee leave entitlements (see table below) | 1,567 | 1,461 |
| Accrued interest on debt | 636 | 703 |
| | 6,072 | 6,230 |

[1] Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

| Accrued employee leave entitlements | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Vacation, compensatory time off, sick bank | 709 | 679 |
| Worker compensation benefits | 93 | 82 |
| Retirement allowance | 539 | 474 |
| Long-term disability | 226 | 226 |
| | 1,567 | 1,461 |

## 13. Due to Other Governments

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Government of Canada: | | |
| Current | 182 | 167 |
| Long-term | 589 | 659 |
| Provincial governments: | | |
| Current | 48 | 35 |
| Local governments:[1] | | |
| Current | 95 | 51 |
| Long-term | 1 | 1 |
| | 915 | 913 |

[1] Local governments are municipal units established by the provincial government that include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 14. Due to Crown Corporations, Agencies and Trust Funds

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| British Columbia Liquor Distribution Branch | 29 | 42 |
| Trust funds | 76 | 102 |
| | **105** | **144** |

## 15. Deferred Revenue

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| Deferred contributions | 2,151 | 1,938 |
| Petroleum, natural gas and minerals, leases and fees | 1,715 | 1,517 |
| Federal contributions | 674 | 981 |
| Unearned lease revenue | 265 | 211 |
| Motor vehicle licences and permits | 234 | 221 |
| Federal and municipal highway project revenues | 227 | 149 |
| Derivative debt instruments | 182 | 174 |
| Tuition | 145 | 117 |
| Water rentals and recording fees | 74 | 79 |
| Medical Services Plan premiums | 74 | 70 |
| Forest Stand Management Fund | 12 | 12 |
| Miscellaneous | 233 | 225 |
| | **5,986** | **5,694** |

## 16. Employee Pension Plans (Unfunded Pension Liabilities)

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| Members of the Legislative Assembly Superannuation Account | 2 | 2 |

(a) Members of the Legislative Assembly Superannuation Account

The Legislative Assembly Superannuation Account (the "Account") is administered by the British Columbia Pension Corporation (Pension Corporation). As members of the Legislative Assembly retire, the present value of the amount required to provide a legislative member's future pension benefit is transferred from the Account to the Public Service Pension Plan from which monthly pensions are paid. The province contributes to this plan and provides additional funding when the present value of the funding exceeds the accumulated assets in the Account available to fund those members' benefit entitlements in the plan. This plan provides basic pension benefits based on length of service, highest five-year average earnings and plan members' age at retirement. Benefits such as group health benefits and inflation protection for the basic pension are not guaranteed and are contingent upon available funding.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 16. Employee Pension Plans (Unfunded Pension Liabilities)—Continued

(b) Other Pension Plans

Other pension plans represent defined benefit plans outside of the College, Public Service, Municipal, and Teachers' Pension plans which are funded by entities within the government reporting entity. They include the Retirement Plan for Non–Teaching Employees of the Board of School Trustees of School District No. 43 (Coquitlam), the University of Victoria's pension plan for employees other than faculty and professional staff and Simon Fraser University's Academic Pension Plan and Administrative/Union Pension Plan. The accrued benefit obligation is $376 million, with estimated pension fund assets of $398 million, and an unamortized actuarial gain of $24 million. The accrued net obligation is $2 million.

There are additional employee pension plans in Crown corporations and agencies consolidated on the modified equity basis. Net assets or net liabilities of the pension funds are included in the investment balance of the particular Crown corporation or agency.

(c) Joint Trusteed Plans

The province contributes to four defined benefit pension plans for substantially all its employees. The four pension plans are the College Pension Plan, the Public Service Pension Plan, the Municipal Pension Plan, and the Teachers' Pension Plan. The plans provide basic pensions based on length of service, highest five–year average earnings and plan members' age at retirement. Benefits such as group health benefits and inflation protection for the basic pension are not guaranteed and are contingent upon available funding. No unfunded liability exists for the future indexing of pensions as the obligation is limited to the amount of available assets in separate inflation accounts.

The College, Public Service, Municipal and Teachers' pension plans are joint trusteed plans. In joint trusteed plans, control of the plans and their assets is assumed by individual pension boards made up of government and plan member representatives. Provisions of these plans stipulate the province has no formal claim to any pension plan surplus or asset. The boards are fully responsible for the management of the plans, including investment of the assets and administration of the plans. The Pension Corporation provides benefit administrative services as an agent of the boards of trustees. The British Columbia Investment Management Corporation provides investment management services as an agent of the independent pension boards.

In the event an unfunded liability is determined by an actuarial valuation (performed every three years), the pension boards are required to address it through contribution adjustments shared equally by plan members and employers. It is expected, therefore, that any unfunded liabilities in the future will be short–term in nature.

The reported net assets of the pension plans are under joint trust arrangements which limit the province's possible conditional share to 50%. The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made. Also, only 70% of the pension fund assets, accrued benefit obligation, and preliminary current year employer contributions are included for the Municipal Pension Plan, reflecting the province's interest in the plan.

The accrued benefit obligations and pension assets shown for 2006/07 are based on extrapolations of the most recent actuarial valuations as shown below. Fund assets are based on market value at the date of actuarial valuation and extrapolated using actuarial growth assumptions as shown in the table below. The expected long-term inflation rates used in these assumptions are nil, since the future indexing of pensions is limited to the amount of available assets in the pension adjustment account.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 16. Employee Pension Plans (Unfunded Pension Liabilities)—Continued

**Key actuarial assumptions and dates:**

| | Public Service Pension Plan | Municipal Pension Plan | Teachers' Pension Plan | College Pension Plan |
|---|---|---|---|---|
| Date of actuarial valuation | Mar 31/05 | Dec 31/03 | Dec 31/05 | Aug 31/03 |
| Date of audited financial statements | Mar 31/06 | Dec 31/05 | Dec 31/05 | Aug 31/06 |
| Expected long-term rate of return | 6.75% | 7.00% | 6.85% | 7.20% |
| Assumed rate of salary escalation | 4.00% | 4.50% | 4.10% | 4.70% |

The audited financial statements of each pension plan listed, except the Account, may be found in the annual reports at www.pensionsbc.ca outside these audited statements.

(d) Accrued net obligation (asset) table

The estimated financial position as at March 31, 2007, for the basic pension in each plan is as follows:

| | In Millions | | | | |
|---|---|---|---|---|---|
| | Public Service Pension Plan | Municipal Pension Plan | Teachers' Pension Plan | College Pension Plan | Total |
| | $ | $ | $ | $ | $ |
| Accrued benefit obligation | 10,850 | 11,570 | 12,425 | 1,616 | 36,461 |
| Pension fund assets | 11,399 | 12,382 | 11,196 | 1,968 | 36,945 |
| | (549) | (812) | 1,229 | (352) | (484) |
| Unamortized actuarial gain (loss) | (1,643) | (737) | (1,570) | (136) | (4,086) |
| **Accrued net obligation (asset)** | **(2,192)** | **(1,549)** | **(341)** | **(488)** | **(4,570)** |

(e) The preliminary overall fund rates of return reported to the pension boards as at December 31, 2006 for each plan are: College Pension Plan 14.0%, Public Service Pension Plan 14.0%, Municipal Pension Plan 15.0%, and Teachers' Pension Plan 15.1%.

(f) The Province's share includes contributions for all participants in the government reporting entity. Total contributions this year for each plan are (in millions): College Pension Plan $46.5, the Public Service Pension Plan $251.0, the Municipal Pension Plan $372.4, and the Teachers' Pension Plan $300.5.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 17. Taxpayer–supported Debt[1]

| | | In Millions | | | | | |
|---|---|---|---|---|---|---|---|
| | Year of Maturity | Canadian Dollar $ | US Dollar[2] $ | Japanese Yen[2] $ | Other Currencies[2] $ | 2007 Canadian Dollar Total $ | 2006 Canadian Dollar Total $ |
| Short–term promissory notes..... | 2007 | | | | | 0 | 1,147 |
| | 2008 | 1,563 | | | | 1,563 | 0 |
| Notes, bonds and debentures[3]..... | 2007 | | | | | 0 | 3,215 |
| | 2008 | 1,012 | 884 | 59 | 418 | 2,373 | 2,361 |
| | 2009 | 2,399 | 1,076 | | | 3,475 | 3,408 |
| | 2010 | 1,375 | 308 | 94 | 572 | 2,349 | 2,347 |
| | 2011 | 1,901 | | 110 | 614 | 2,625 | 2,618 |
| | 2012 | 2,507 | | | | 2,507 | 2,433 |
| | 2013–2017 | 2,726 | 509 | | | 3,235 | 3,160 |
| | 2018–2022 | 1,069 | | | | 1,069 | 906 |
| | 2023–2027 | 3,583 | | | | 3,583 | 3,414 |
| | 2028–2032 | 3,876 | | | | 3,876 | 3,795 |
| | 2033–2037 | 910 | | | | 910 | 755 |
| | 2038–2042 | 942 | | | | 942 | 415 |
| | 2043–2047 | 405 | | | | 405 | 400 |
| **Total debt issued at face value** | | 24,268 | 2,777 | 263 | 1,604 | 28,912 | 30,374 |
| Unamortized discount | | | | | | (130) | (147) |
| Unrealized foreign exchange gains | | | | | | 62 | 69 |
| Amount held in the Consolidated Revenue Fund | | | | | | (3) | (7) |
| **Taxpayer–supported debt** | | | | | | 28,841 | 30,289 |

The effective interest rates (weighted average) as at March 31 on the above debt are:

| | |
|---|---|
| 2007 | 6.14% |
| 2006 | 6.01% |

[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 19 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $1,955 million US ($2,777million Canadian); 22,000 million Japanese Yen ($263 million Canadian); 400 million Swiss Franc ($418 million Canadian); and 688 million Euro ($1,186 million Canadian).

[3] Notes, bonds and debentures include $532 million (2006: $201 million) in public–private partnership obligations, $319 million (2006: $229 million) in mortgages, $251 million (2006: $252 million) in capital leases, and $170 million (2006: $121 million) in demand loans.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 17. Taxpayer-supported Debt—Continued

### Notes, bonds and debentures

*Redeemable by the bond holder*

Balances include British Columbia Savings Bonds totalling $14 million (2006: $32 million) maturing on October 15, 2007 with an effective rate of 3.85% are redeemable at par by the holder on April 15, 2007.

*Redeemable by the province*

Balances include debentures issued to the Canada Pension Plan totalling $3,481 million (2006: $3,467 million) at a weighted average interest rate of 7.75% (2006: 8.06%). These debentures mature at various dates from April 10, 2007 to March 12, 2037 with interest rates varying between 4.12% and 11.33%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province. During the year, $226 million (2006: $76 million) Canada Pension Plan debentures were issued. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

*Aggregate payments to meet sinking fund instalments and retirement provisions*

Aggregate payments for the next five fiscal years to meet sinking fund instalments and retirement provisions on notes, bonds and debentures are:

| | In Millions Canadian Dollar |
|---|---|
| 2008 | 2,148 |
| 2009 | 3,273 |
| 2010 | 2,132 |
| 2011 | 2,257 |
| 2012 | 1,659 |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 18. Self-supported Debt[1]

| | Year of Maturity | Canadian Dollar | US Dollar[2] | 2007 Canadian Dollar Total | 2006 Canadian Dollar Total |
|---|---|---|---|---|---|
| | | In Millions | | | |
| | | $ | $ | $ | $ |
| Short-term promissory notes | 2007 | | | 0 | 898 |
| Notes, bonds and debentures | 2008 | 846 | 260 | 1,106 | 0 |
| | 2007 | | | 0 | 314 |
| | 2008 | 9 | 373 | 382 | 384 |
| | 2009 | 124 | | 124 | 124 |
| | 2010 | 574 | 58 | 632 | 632 |
| | 2011 | 150 | | 150 | 150 |
| | 2012 | 450 | | 450 | 450 |
| | 2013–2017 | 975 | 290 | 1,265 | 1,265 |
| | 2018–2022 | 1,271 | | 1,271 | 1,271 |
| | 2023–2027 | 400 | 617 | 1,017 | 1,020 |
| | 2028–2032 | 1,100 | | 1,100 | 800 |
| | 2033–2037 | | 364 | 364 | 365 |
| **Total debt issued at face value** | | **5,899** | **1,962** | 7,861 | 7,673 |
| Unamortized discount premium/(discount) | | | | (16) | 16 |
| Unrealized foreign exchange gains | | | | 52 | 69 |
| **Total self-supported debt** | | | | **7,897** | **7,758** |

The effective interest rates (weighted average) as at March 31 on the above debt are:

| | |
|---|---|
| 2007 | 6.68% |
| 2006 | 6.53% |

[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 19 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include $1,562 million US ($1,962 million Canadian).

### Notes, bonds and debentures

*Redeemable by the province*

Balances include debentures issued to the Canada Pension Plan totalling $177 million (2006: $191 million) at a weighted average interest rate of 10.04% (2006: 10.01%). These debentures mature at various dates from August 10, 2007 to June 9, 2009 with interest rates varying between 9.62% and 10.42%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 18. Self-supported Debt—Continued

*Aggregate payments to meet retirement provisions*

Aggregate payments for the next five fiscal years to meet retirement provisions on notes, bonds and debentures are:

| | In Millions Canadian Dollar |
|---|---|
| 2008 | 355 |
| 2009 | 86 |
| 2010 | 571 |
| 2011 | 141 |
| 2012 | 417 |

## 19. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with interest rate fluctuations, foreign exchange rate fluctuations and credit risk. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance, the province uses a variety of derivative financial instruments to hedge exposure to interest and foreign exchange risks.

Derivatives used by the province include interest rate swaps, cross-currency swaps, forward foreign exchange contracts, forward rate agreements, advanced rate setting agreements and options. A derivative instrument is a financial contract with a financial institution or counterparty that is applied to effect a hedge on interest rate or foreign exchange exposure contained in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument.

The following tables present maturity schedules of the province's derivatives by type, outstanding at March 31, 2007, based on the notional amounts of the contracts.

### Taxpayer-supported Debt

| | In Millions | | | |
|---|---|---|---|---|
| Year of Maturity | Cross Currency Swaps | Interest Rate Swaps | Forward Foreign Exchange Contracts | Total |
| | $ | $ | $ | $ |
| 2008 | 1,361 | | | 1,361 |
| 2009 | 985 | 776 | 690 | 2,451 |
| 2010 | 974 | 579 | | 1,553 |
| 2011 | 834 | | | 834 |
| 2012 | | 100 | | 100 |
| 6–10 years | 509 | 505 | | 1,014 |
| + 10 years | 64 | 774 | | 838 |
| **Total** | **4,727** | **2,734** | **690** | **8,151** |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 19. Risk Management and Derivative Financial Instruments—Continued

### Self-supported Debt

| | In Millions | | | |
|---|---|---|---|---|
| Year of Maturity | Cross Currency Swaps | Interest Rate Swaps | Forward Foreign Exchange Contracts | Total |
| | $ | $ | $ | $ |
| 2008 | 200 | 423 | 130 | 753 |
| 2010 | | 558 | 57 | 615 |
| 2012 | | 300 | | 300 |
| 6–10 years | 290 | 980 | | 1,270 |
| + 10 years | | 100 | 719 | 819 |
| **Total** | **490** | **2,361** | **906** | **3,757** |

*Interest rate risk*

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts (interest rate swaps) to manage interest rate risk by exchanging a series of interest payments, and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals $20,980 million (2006: $22,761 million), allow floating rate exposure up to 45.00% (2006: 45.00%) of this portion of the taxpayer-supported debt. At March 31, 2007, floating rate debt exposure was 25.75% (2006: 31.80%) of the government direct debt portfolio.

Under current policy guidelines for British Columbia Hydro and Power Authority (BC Hydro), the maximum floating rate exposure is 46.00% (2006: 46.00%) of their debt that totals $7,144 million (2006: $6,892 million). At March 31, 2007, floating rate debt exposure for BC Hydro was 37.60% (2006: 36.10%) of their debt.

Based on the taxpayer-supported and self-supported debt portfolios at March 31, 2007, a 1.00% change in interest rates would impact the annual debt servicing expense by $57 million (2006: $73 million) for the taxpayer-supported debt portfolio and $26 million (2006: $28 million) for the self-supported debt portfolio.

*Foreign exchange risk*

Foreign exchange risk is the risk that the province's debt servicing costs and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts (cross currency swaps) to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals $20,980 million (2006: $22,761 million), allow unhedged foreign debt exposure up to 10.00% (2006: 10.00%) of this portion of the taxpayer-supported debt. At March 31, 2007, unhedged foreign debt exposure in Japanese yen was 1.69% (2006: 1.57%) of the government direct debt portfolio. At March 31, 2007, there was no unhedged foreign debt exposure in US dollars for the government direct debt portfolio (2006: nil).

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 19. Risk Management and Derivative Financial Instruments—Continued

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 20.00% (2006: 20.00%) of their debt, which totals $7,144 million (2006: $6,892 million). At March 31, 2007, 2.30%(2006: 2.60%) of their debt was in the form of unhedged foreign debt in US dollars.

Based on the taxpayer-supported and self-supported debt portfolios at March 31, 2007, a one cent change in the Canadian dollar versus the US dollar would impact the annual debt servicing costs for the self-supported debt portfolio by $5 million (2006: $7 million). A change of one yen versus the value of the Canadian dollar (for example, from 102 yen to 101 yen) would impact the annual debt servicing costs of the taxpayer-supported debt portfolio by $1 million (2006: $1 million).

*Credit risk*

Credit risk is the risk that the province will incur financial loss due to a counterparty defaulting on its financial obligation to the province. In accordance with the government's policy guidelines, the province reduces its credit risk by dealing with only highly rated counterparties. The province only enters into derivative transactions with counterparties that have a rating from Standard & Poor's and Moody's Investors Service Inc. of at least AA–/Aa3 or A+/A1 in the case of Canadian Schedule A banks. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

## 20. Net Liabilities

The Consolidated Statement of Change in Net Liabilities (see page 35) shows the net impact of applying the expenditure basis of accounting. The net liabilities calculation uses the expenditure, rather than the expense basis of accounting. Under the expenditure basis of accounting, tangible capital assets, prepaid program costs and other assets are recorded as expenditures when calculating the current year surplus or deficit. Under the expense basis of accounting, these items are recorded on the Consolidated Statement of Financial Position as assets and amortized over an applicable period of time.

## 21. Tangible Capital Assets

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Land and land improvements | 2,304 | 2,099 |
| Buildings (including tenant improvements) | 12,088 | 11,216 |
| Highway infrastructure | 7,424 | 6,927 |
| Transportation equipment | 1,967 | 2,020 |
| Computer hardware and software | 923 | 778 |
| Other | 1,920 | 1,716 |
| | **26,626** | **24,756** |

*See* Statement of Tangible Capital Assets on page 84.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); transportation equipment (including ferries and related infrastructure) (5–40 years); computer hardware and software (3–5 years); major software systems (9–12 years); and other (including vehicles, specialized equipment, and furniture and equipment) (5–20 years). Land improvements are amortized over 30 years (recreation areas) or 40 years (dams and water management systems). Tenant improvements are amortized over five years or the length of the relevant lease term.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 21. Tangible Capital Assets—Continued

Included in tangible capital assets of British Columbia Transit (BCT) and of Rapid Transit Project 2000 Ltd (RTP) are capital assets under lease to Greater Vancouver Transportation Authority (GVTA). These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to GVTA for their use under the *Greater Vancouver Transportation Authority Act* and an Order in Council (OIC) enacted thereunder, and represent one of the province's contributions toward public transportation in the Greater Vancouver Regional District. The OIC–directed lease arrangements with GVTA and BCT are for one dollar per year under an initial 15–year term with additional five–year renewal periods upon the agreement of BCT and GVTA. The net book value of these assets is $896 million (2006: $916 million). A similar lease arrangement is under negotiation with GVTA for the RTP assets.

## 22. Prepaid Program Costs

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Prepaid program costs[1] | **592** | **532** |

[1] Includes inventories of operating material held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year and deferred costs associated with the BC Timber Sales Program. Also includes inventories of supplies and other not–for–resale items held by taxpayer–supported Crown corporations and agencies which are charged to expense when consumed in the normal course of operations.

## 23. Other Assets

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Deferred debt instrument costs | 324 | 277 |
| Other deferred costs | 12 | 21 |
| Deferred treaty costs | 15 | 17 |
| | **351** | **315** |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 24. Accumulated Surplus (Deficit)

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Accumulated surplus (deficit)—beginning of year as previously reported[1] | (124) | (3,184) |
| Adjustments to accumulated surplus (deficit)[2,3] | (43) | (73) |
| Accumulated surplus (deficit)—beginning of year as restated | (167) | (3,257) |
| Other comprehensive income from self-supported Crown corporations and agencies (see page 83) | 447 | |
| Surplus (deficit) for the year[4] | 4,056 | 3,090 |
| **Accumulated surplus (deficit)—end of year** | **4,336** | **(167)** |

[1] The opening accumulated deficit figure for April 1, 2005 and April 1, 2006 are as reported in the 2005/06 Public Accounts.

[2] During 2006/07, adjustments were made to the opening accumulated deficit for 2005/06 as follows:

| | |
|---|---|
| School Districts—adjustment for land and building additions from 1998 to 2001 | 25 |
| BC Rail restatement—adjustment for 2005 asset impairment write down and amortization adjustment | 4 |
| Natural resources—adjustment for contractual obligations related to resource road development | 44 |
| Forests—community access roads capitalization | 22 |
| Vancouver Island Natural Gas Pipeline—adjustment for 2004 and 2005 rate stabilization liability | (168) |
| Total | (73) |

[3] During 2006/07, adjustments were made to the opening deficit for 2006/07 for the following items:

| | |
|---|---|
| School Districts—adjustment for land and building additions from 1998 to 2001 | 25 |
| BC Rail restatement—adjustment for 2005 asset impairment write down and amortization adjustment | 26 |
| Natural resources—adjustment for contractual obligations related to resource road development | 52 |
| Forests—community access roads capitalization | 22 |
| Vancouver Island Natural Gas Pipeline—adjustment for 2004 and 2005 rate stabilization liability | (168) |
| Total | (43) |

[4] During 2006/07, adjustments were made to the reported surplus figure for the 2005/06 fiscal as follows:

| | |
|---|---|
| Reported surplus for 2005/06 | 3,060 |
| BC Rail restatement—adjustment for 2005 asset impairment write down and amortization adjustment | 22 |
| Natural resources—adjustment for contractual obligations related to resource road development | 8 |
| Total | 3,090 |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 25. Contingencies and Contractual Obligations

(a) GUARANTEED DEBT

The authorized limit for loans guaranteed by the province as at March 31, 2007 was $420 million (2006: $425 million). These guarantees include amounts where indemnities have been made for explicit quantifiable loans. Guaranteed debt as at March 31, 2007, totaled $104 million (2006: $111 million). See Consolidated Statement of Guaranteed Debt on page 85 for details.

(b) CONTINGENT LIABILITIES

*Litigation*

The province is a defendant in legal actions and is involved in matters such as expropriation, contract and tax disputes. These matters may give rise to future liabilities.

The province has the following contingent liabilities where the estimated or known claim is or exceeds $100,000, but the likelihood of payment is uncertain.

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Tax disputes | | 1,300 |
| Negligence and miscellaneous | 205 | 13 |
| Damage to persons or property | 122 | 112 |
| Contract disputes | 12 | 138 |
| Property access disputes | 8 | 118 |
| Motor vehicle accidents | 8 | 11 |
| Expropriation disputes | | 4 |
| | 355 | 1,696 |

When it is determined it is likely a liability exists and the amount can be reasonably estimated, the amount is recorded as an accrued liability (see Note 12) and an expense. The accrued liability for pending litigation in process at March 31, 2007, was $66 million (2006: $56 million)

*Guarantees and Indemnities*

The province also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims for amounts that are not explicit or reasonably estimable at this time.

*Environmental Clean-up*

The province is responsible for the environmental clean-up of numerous contaminated sites in the province. For those sites where the province has possession, a liability of $139 million (2006: $143 million) has been accrued based on preliminary environmental assessments. This liability is based on the minimum estimated clean-up costs for those sites where an estimate has been made and it has been determined the government is liable. Estimated clean-up costs, not already accrued for sites under evaluation, are approximately $40 million at March 31, 2007. In addition, the Ministry of Energy and Mines has determined possible net liabilities of $386 million for sites the province does not own. Many other sites remain to be evaluated; the future liability for all environmental clean-up costs is not currently determinable.

*Aboriginal Land Claims*

Treaty negotiations between the province, Canada and First Nations commenced in 1994. The province anticipates these negotiations will result in modern-day treaties defining the boundaries and nature of First Nations treaty settlement lands. As of March 31, 2007, there were 47 treaty tables in various stages of negotiation, representing two-thirds of the aboriginal people in British Columbia.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 25. Contingencies and Contractual Obligations—Continued

When final treaty agreements are ratified, the provincial cost of treaties is recorded in the Public Accounts. Depending on the substance of the final agreement, costs are expensed upfront or deferred and amortized over the time periods established in the agreement.

One Agreement in Principle (AiP) was signed in 2006/07, (In-SHUCK-ch). As at March 31, 2007, two Final Agreements (Tsawwassen and Maa-nulth) have been initialed and are pending ratification. It is expected the capital transfer components in all AiP's will be entirely provided by Canada. The current commitments of provincial Crown land for all Final Agreement tables are as follows:

(i) In–SHUCK–ch, 13,208 hectares
(ii) Lheidli T'enneh, 3,416 hectares
(iii) Maa–nulth, 22,467 hectares
(iv) Sechelt, 933 hectares
(v) Sliammon, 6,357 hectares
(vi) Tsawwassen, 434 hectares
(vii) Yale, 915 hectares
(viii) Yekooche, 5,960 hectares

The parties at the Sechelt table are having informal discussions with the objective of returning to the table to conclude a Final Agreement based on the signed AiP. An AiP was ratified by the In–SHUCK–ch Treaty Group on April 30, 2006 and is pending ratification by the Government of Canada. Upon coming into effect, treaties will also trigger implementation costs and may result in compensation to third parties. Those costs are not determinable at this time.

Eighty per cent of funding for First Nations negotiation costs is in the form of loans from Canada and is repayable from treaty settlements. The province has committed to reimburse Canada 50% of any negotiation support loans that default along with 50% of the interest accrued. The amount of any provincial liability is not determinable at this time.

Some First Nations have chosen not to negotiate through the formal British Columbia Treaty Commission process. Several First Nations have commenced litigation claiming aboriginal rights and/or title over their asserted Traditional Territories and/or challenging provincial approvals regarding resource allocation and extraction on those lands with respect to the adequacy of consultation and accommodation. The results of these actions are not determinable at this time.

*Crown Corporations, Agencies and the School Districts, Universities, Colleges, Institutes and Health Organizations (SUCH) Sector*

(i) The Insurance Corporation of British Columbia (ICBC) has settled some claims that require ICBC to provide claimants with periodic payments, usually for a lifetime. ICBC has purchased annuities to make these payments; however, if the annuities are insufficient, ICBC remains responsible. The present value of these settlements at December 31, 2006, was approximately $907 million (2005: $842 million).

(ii) The BC Transportation Financing Authority has contingent liabilities of $102 million remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects.

(iii) Powerex, a wholly owned subsidiary of the British Columbia Hydro and Power Authority, has been named as a defendant in a number of lawsuits regarding alleged market manipulation of energy prices in the California wholesale electricity markets. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. Estimates of claims against all market participants could reach several billion US dollars. Management cannot predict the outcome of the various claims; however, Powerex states the terms of its sales were just and reasonable.

(iv) The BC Pavilion Corporation and predecessor property owners remain liable for environmental and reclamation obligations for known hazards that exist at various owned facilities. Management is actively monitoring and mitigating these hazards. Management is not aware of any existing environmental problems related to its facilities that may result in material liability to the BC Pavilion Corporation.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 25. Contingencies and Contractual Obligations—Continued

(v) The British Columbia Railway Corporation (BCRC) and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (CN) on July 14, 2004. As a result of the transaction, the province and BCRC have provided commercial indemnities to the CN transaction and indemnities related to income tax attributes of BC Rail at closing. As at March 31, 2007, the maximum present value (calculated at 9%) of amounts payable under the tax indemnities related to income tax attributes (excluding any reimbursement of professional fees, tax arrears, interest on taxes payable, if any, on indemnity payments) is approximately $463 million. These indemnities remain in effect until 90 days after the last date on which a tax assessment or reassessment can be issued in respect of the income tax attributes. Management believes it is unlikely that the province or BCRC will ultimately be held liable for any amounts under the commercial and tax indemnities.

(c) COMMITMENTS

The government is involved in the following major commitments.

*2010 Winter Olympics*

On July 2, 2003, the International Olympic Committee (IOC) selected Vancouver to host the 2010 Olympic and Paralympic Winter Games (the Games). A comprehensive Multi–Party Agreement (MPA) among Canada, British Columbia, the City of Vancouver, the Resort Municipality of Whistler, the Canadian Olympic Committee, the Canadian Paralympic Committee, and the Vancouver 2010 Bid Corporation was signed November 14, 2002.

The MPA establishes the roles and relationships of all the parties, the contractual arrangements, financial contributions, legal responsibilities, and the sport legacies of the parties in relation to the Games. On September 30, 2003, the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) was incorporated as the successor organization to the Vancouver 2010 Bid Corporation. The province has the power to appoint three of the 20 board members to VANOC. VANOC's mandate is to plan, organize, finance, stage and host the Games. In addition, the province has provided a guarantee to the IOC of a potential financial shortfall of VANOC. The guarantee should not be relied on by parties other than the IOC.

The province has made a commitment to contribute $600 million towards the Games. This commitment has been allocated as follows:

- Venues and live sites $310 million
- Venues endowment legacy $55 million
- Medical and security costs $100 million
- Paralympic games $20 million
- First Nations sports and municipal legacies $38 million; and
- Olympic contingency allocations $77 million

The province spent $124 million in 2007 (2006: $8 million; previous years: $140 million) for a total to date of $272 million at March 31, 2007. Contractual obligations related to the Olympic games commitment are included in section (d) of this note.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 25. Contingencies and Contractual Obligations—Continued

Information about the Games may be found at the 2010 Olympic Games website: www.vancouver2010.com, outside these audited statements, and at the BC Olympic and Paralympic Winter Games Secretariat http://www.sbed.gov.bc.ca/2010secretariat/, outside these audited statements.

The province is also upgrading the Sea-to-Sky Highway to coincide with the Games. The province spent $187 million in 2007 (2006: $102 million). The project to date spending total is $357 million (2006: $169 million). The contractual obligations related to the Sea-to-Sky Highway are included in section (d) of this note.

*Crown Corporations, Agencies and the SUCH Sector*

The province has committed to the construction of the $771.2 million expansion to the Vancouver Convention Centre and other shared upgrades to adjacent facilities. The cost is to be shared by the province ($426.6 million), the government of Canada ($222.5 million), Tourism Vancouver ($90 million), up-front payments related to commercial agreements ($30 million), and a separate commitment with Western Economic Diversification Canada ($2.1 million). The contractual obligations related to the expansion of the Vancouver Convention Centre are included in section (d) of this note.

(d) CONTRACTUAL OBLIGATIONS

The government has entered into a number of multiple-year agreements for the delivery of services and the construction of assets. The following table presents the minimum amounts required to satisfy the contractual obligations, for contractual obligations that are greater than $50 million, by sector, by year.

| | In Millions | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 and beyond | Total |
| **Consolidated Revenue Fund and Taxpayer-supported Crown corporations and agencies** | $ | $ | $ | $ | $ | $ | $ |
| Health | 983 | 615 | 572 | 553 | 560 | 2,197 | 5,480 |
| Education | 200 | 86 | 26 | 11 | 2 | 6 | 331 |
| Social services | 272 | 17 | 5 | 1 | | | 295 |
| Other | 87 | 97 | 87 | 70 | 53 | 247 | 641 |
| Natural resources and economic development | 228 | 60 | 100 | 39 | 39 | 884 | 1,350 |
| Protection of persons and property | 272 | 265 | 265 | 264 | 264 | | 1,330 |
| Transportation | 883 | 594 | 599 | 606 | 614 | 11,165 | 14,461 |
| General government | 395 | 380 | 221 | 199 | 176 | 337 | 1,708 |
| | **3,320** | **2,114** | **1,875** | **1,743** | **1,708** | **14,836** | **25,596** |
| **Self-supported Crown corporations and agencies** | | | | | | | |
| Natural resources and economic development | 2,027 | 1,212 | 1,243 | 1,304 | 1,403 | 22,268 | 29,457 |
| General government | 53 | 41 | 30 | 19 | 8 | 28 | 179 |
| | 2,080 | 1,253 | 1,273 | 1,323 | 1,411 | 22,296 | 29,636 |
| **Total** | **5,400** | **3,367** | **3,148** | **3,066** | **3,119** | **37,132** | **55,232** |

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 26. Restricted Assets

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Endowment funds of universities and colleges | 1,096 | 983 |

Donors have placed restrictions on their contributions to the endowment funds of universities and colleges. One restriction is that the original contribution should not be spent. Another potential restriction is that any investment income of the endowment fund, that is required to offset the eroding effect of inflation or to preserve the original value of the endowment, should also not be spent.

## 27. Revenue

| | In Millions | |
|---|---|---|
| **Taxation revenue includes** | 2007 | 2006 |
| | $ | $ |
| Personal income | 6,905 | 5,838 |
| Corporate income | 1,538 | 1,426 |
| Social service | 4,714 | 4,367 |
| Property | 1,732 | 1,717 |
| Other | 3,129 | 3,081 |
| | 18,018 | 16,429 |

*See* notes at the end of the Schedule of Net Revenue by Source on page 100 for additional information on taxation revenue.

## 28. Expense

| | In Millions | |
|---|---|---|
| **Total Expense by Group Account Classification** | 2007 | 2006 |
| | $ | $ |
| Salaries and benefits | 13,926 | 12,922 |
| Government transfers | 7,809 | 8,009 |
| Operating costs | 8,527 | 7,912 |
| Interest[1] | 2,234 | 2,181 |
| Amortization | 1,475 | 1,376 |
| Other | 477 | 483 |
| | 34,448 | 32,883 |

[1] Includes foreign exchange gain amortization of $32 million (2006: $121 million) and self-supported debt interest of $489 million (2006: $428 million).

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 29. Valuation Allowances

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| Accounts receivable | 70 | 159 |
| Loans, advances and mortgages receivable | 28 | 31 |
| Tangible capital assets | 14 | 12 |
| Inventories for resale | 7 | 7 |
| Investments | 2 | 1 |
| Other assets | | 5 |
| | **121** | **215** |

These amounts are included in "Other" of "Total expense by Group Account Classification" in Note 28, and represent the write-down of assets and liabilities in the above Consolidated Statement of Financial Position categories.

## 30. Trusts Under Administration

| | In Millions 2007 $ | 2006 $ |
|---|---|---|
| Public Guardian and Trustee —administered by government officials | 647 | 582 |
| Supreme and provincial court (Suitors' Funds) —administered by the Courts | 38 | 39 |
| Credit Union Deposit Insurance Corporation of B.C. —administered by various government officials and a non-government investment corporation | 239 | 213 |
| Other trust funds —administered by various government officials | 73 | 93 |
| | **997** | **927** |

## 31. Significant Events

*Collective Bargaining Agreement Incentives*

A significant proportion of the public service is made up of employees that work under collective bargaining agreements. The majority of public sector employees are represented by collective agreements that expired on or before March 31, 2006; however there were several agreements that were finalized in the 2006/07 fiscal year.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 31. Significant Events—Continued

The province established a negotiating framework that included a one–time incentive payment to employees provided their collective agreement was negotiated on or before its expiry date. The incentive payments are paid to employees once the collective agreements are ratified. The province also paid the incentive payment to management employee and non–union members of the public service. The total amount of the budget for incentive payments for all collective agreements, management employees and non–union members of the public service was $1 billion. Approximately $710 million dollars of the incentive budget was paid for collective agreements concluded on or before March 31, 2006 as well as for management employees and non–union members of the public service. The remaining balance of $290 million relates to collective agreements that expired after, but were not concluded by, March 31, 2006. Of the remaining $290 million, $264 million was paid out in the 2006/07 fiscal year.

| | In Millions 2007 |
|---|---|
| | $ |
| Health | 3 |
| Education | 255 |
| Natural resources and economic development | 1 |
| Protection of persons and property | 5 |
| | 264 |

## 32. Comparison to Estimates

The Estimates numbers on the Statement of Operations are taken from the Estimated Statement of Operations on page 4 of the *Estimates, Fiscal Year Ending March 31, 2007*, presented to the Legislative Assembly February 21, 2006. They do not include supplementary spending of $290 million for incentive payments for the benefit of Public Sector employees under the negotiating framework announced on November 30, 2005, that was approved by the Legislature during the 2006/07 fiscal year.

## 33. Comparatives

The comparative figures for the previous year have been restated to conform with the current year's presentation. The effect of these restatements on the previously reported operating result is disclosed in Note 24.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 34. Subsequent Events

(a) British Columbia Railway Company

On April 3, 2007, British Columbia Railway Company (BCRC) and its subsidiaries Vancouver Wharves Limited Partnership (VWLP) and BCR Properties Ltd (BCRP) entered into a transaction with Kinder Morgan Canada Terminals ULC (KMCT) regarding the operation of the Vancouver Wharves (VW) bulk marine terminal in North Vancouver.

The transaction includes a 40 year non-renewable lease with respect to the VW lands as well as the purchase by KMCT of the VW terminal assets, which include on site rail infrastructure, dry bulk and liquid storage, and material handling systems. KMCT will pay $40 million cash on closing, which includes the prepayment of all rent on the VW lands. KMCT will assume VWLP's asset retirement obligation to remediate the leased VW lands at the end of the lease to the same standards under which VWLP has under its current lease with BCRP. KMCT will assume VWLP's asset retirement obligation to the Port of Vancouver. KMCT will assume certain environmental liabilities pertaining to the VW lands. KMCT has also agreed, at its cost, to transfer those VW terminal operations that are conducted on land adjacent to the VW lands to the VW lands. BCRC will retain the environmental obligations associated with the VW terminal operations that are currently conducted on land adjacent to the VW lands.

At March 31, 2007, the book value of the net assets of VW were $6.0 million (March 31, 2006: $2.0 million) and income for the year ending March 31, 2007 was $10.6 million (year ending March 31, 2006: $9.1 million loss).

BCRP, as the VW land owner, will continue to recognize the VW lands asset retirement obligations and VW lands environmental liabilities. The present value of the asset retirement obligations is $44.6 million and the book value of the environmental liability is $14 million.

(b) Vancouver Convention Centre Expansion Project

On April 11, 2007, the province approved additional funding of $86 million for the Vancouver Convention Centre Expansion Project raising the new facility's budget to $771.2 million (and the province's related contribution to $426.6 million).

(c) Members of the Legislative Assembly (MLA) Compensation

Legislation was passed on May 31, 2007 to provide a pay increase and pension benefits to MLA's with options retroactive to 1996. The pension amounts are undeterminable until options are exercised to purchase past service pension benefits. The option must be exercised before July 1, 2011.

(d) Supreme Court of Canada ruling on Bill 29

On June 8, 2007 the Supreme Court of Canada issued a declaration that certain provisions of Bill 29 are unconstitutional. The Court suspended the declaration for a period of 12 months to allow the government to address the repercussions of the decision. No liabilities have been established as a result of this decision and the future financial impact, if any, of this ruling cannot be determined.

# Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2007—Continued

## 35. Asset Retirement Obligations[1]

| | In Millions | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| Health | 10 | 1 |
| Education[2] | 4 | 4 |
| Other | 4 | 3 |
| Natural resources and economic development | 17 | 16 |
| Transportation | 44 | 42 |
| | 79 | 66 |

[1] The province recognizes asset retirement obligations where a reasonable estimate of the fair value of the obligation and the future settlement date of the retirement of the asset can be determined. Legal liabilities may exist for the removal or disposal of asbestos within buildings that will undergo major renovations or demolition. The fair value of the liability for asbestos removal or disposal will be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made.

[2] The information for School Districts is at June 30, 2006.

# Summary Financial Statements
# Reporting Entity
# for the Fiscal Year Ended March 31, 2007

TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

## Consolidated Revenue Fund[1]

## Health Sector

Bella Coola General Hospital
Canadian Blood Services[2]
Fraser Health Authority
Interior Health Authority
Louis Brier Home and Hospital
Menno Hospital
Mount St. Mary Hospital
Nisga'a Valley Health Board
Northern Health Authority
Providence Health Care
Provincial Health Services Authority
RW Large Memorial Hospital
St Joseph's General Hospital
St Michael's Centre
Vancouver Coastal Health Authority
Vancouver Island Health Authority
Wrinch Memorial Hospital

## Education Sector

British Columbia Institute of Technology
Camosun College
Capilano College
College of New Caledonia
College of the Rockies
Douglas College
Emily Carr Institute of Art and Design
Industry Training Authority
Institute of Indigenous Government
Justice Institute of British Columbia
Kwantlen University College
Langara College
Leading Edge Endowment Fund Society
Malaspina University College
Nicola Valley Institute of Technology
North Island College
Northern Lights College
Northwest Community College
Okanagan College
Okanagan University College

# Summary Financial Statements
# Reporting Entity
# for the Fiscal Year Ended March 31, 2007—Continued

TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

## Education Sector—Continued

Open Learning Agency
Private Career Training Institutions Agency
Royal Roads University
School Districts
Selkirk College
Simon Fraser University
Thompson Rivers University
The University of British Columbia
University College of the Fraser Valley
University of Northern British Columbia
University of Victoria
Vancouver Community College

## Natural Resources and Economic Development Sector

552513 BC Ltd
BC Immigrant Investment Fund Ltd
B.C. Pavilion Corporation
British Columbia Enterprise Corporation
British Columbia Innovation Council
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Forestry Innovation Investment Ltd
Nechako–Kitamaat Development Fund Society[3]
Oil and Gas Commission
Partnerships British Columbia Inc
Tourism British Columbia
Vancouver Convention Centre Expansion Project

## Transportation Sector

BC Transportation Financing Authority
British Columbia Transit
Rapid Transit Project 2000 Ltd

## Protection of Persons and Property

British Columbia Securities Commission
Organized Crime Agency of British Columbia Society

## Social Services Sector

Community Living British Columbia
Legal Services Society

# Summary Financial Statements
# Reporting Entity
# for the Fiscal Year Ended March 31, 2007—Continued

TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

## Other Sector

BC Games Society
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation[4]
British Columbia Housing Management Commission
First Peoples' Heritage, Language and Culture Council
Homeowner Protection Office
Provincial Rental Housing Corporation
The Royal British Columbia Museum Corporation

SELF–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ENTERPRISES)
RECORDED ON A MODIFIED EQUITY BASIS

BCIF Management Ltd[5]
British Columbia Hydro and Power Authority[5]
British Columbia Liquor Distribution Branch[6]
British Columbia Lottery Corporation[6]
British Columbia Railway Company[7]
British Columbia Transmission Corporation[5]
Columbia Power Corporation[5]
Insurance Corporation of British Columbia[8]
Provincial Capital Commission[9]

[1]The Consolidated Revenue Fund has been allocated to the appropriate sector on the Consolidated Statement of Financial Position by Sector (page 74) and Operations by Sector (page 78).
[2]This organization reflects a government partnership amongst Canadian provinces and is proportionally consolidated based upon the province's share (14.67%) of the total provincial contributions to the partnership.
[3]This organization was included in operations for the first time during this fiscal year.
[4]This organization wound up operations during the fiscal year.
[5]These organizations were included in the Natural Resources and Economic Development Sector results.
[6]These organizations were included in the General Government Sector results.
[7]This organization was included in the Transportation Sector results.
[8]This organization was included in the Protection of Persons and Property Sector results.
[9]This organization was included in the Other Sector results.

# Summary Financial Statements
# Consolidated Statement of Financial Position by Sector
# as at March 31, 2007

In Millions

| | Health | | Education | | Social Services | | Debt Servicing[1] | | Other[2] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Financial Assets** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Cash and cash equivalents | 271 | 276 | 1,483 | 1,509 | (2) | 1 | 279 | 790 | 71 | 145 |
| Temporary investments | 324 | 369 | 305 | 286 | 18 | 21 | | | 66 | 40 |
| Accounts receivable | 292 | 194 | 215 | 163 | 67 | 73 | 282 | 313 | 36 | 42 |
| Inventories for resale | 1 | 1 | 29 | 29 | | | | | 1 | 19 |
| Due from the Province of British Columbia | 2 | 325 | 17 | 109 | | 3 | | | | 15 |
| Due from other governments | 49 | 68 | 94 | 102 | 9 | 11 | | | 52 | 94 |
| Due from self-supported Crown corporations and agencies | | | | | | | | | | |
| Equity in self-supported Crown corporations and agencies | | | | | | | | | 15 | 15 |
| Loans, advances and mortgages receivable | 1 | 2 | 584 | 538 | 1 | | | | 141 | 163 |
| Other investments | 156 | 157 | 1,760 | 1,510 | 4 | | 15 | 18 | 42 | 40 |
| Sinking fund investments | | | 56 | 73 | | | 3,798 | 4,059 | | 152 |
| Loans for purchase of assets, recoverable from agencies | | | | | | | 10,262 | 10,008 | | |
| | 1,096 | 1,392 | 4,543 | 4,319 | 97 | 109 | 14,636 | 15,188 | 424 | 725 |

# Summary Financial Statements
## Consolidated Statement of Financial Position by Sector—Continued
## as at March 31, 2007

In Millions

| | Natural Resources and Economic Development | | Protection of Persons and Property | | Transportation | | General Government[3] | | Adjustments[4] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Financial Assets** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Cash and cash equivalents | 221 | 177 | 12 | 9 | 49 | 27 | 34 | | | | 2,418 | 2,934 |
| Temporary investments | 219 | 204 | 16 | 15 | 1 | | | | | | 949 | 935 |
| Accounts receivable | 612 | 559 | 84 | 85 | 28 | 20 | 1,308 | 1,167 | (82) | (52) | 2,842 | 2,564 |
| Inventories for resale | 25 | 28 | 9 | 7 | | | 10 | 9 | | | 75 | 93 |
| Due from the Province of British Columbia | 6 | 6 | | | 38 | 37 | | | (63) | (495) | 0 | 0 |
| Due from other governments | 217 | 29 | 39 | 29 | 36 | 25 | 385 | 316 | | | 881 | 674 |
| Due from self-supported Crown corporations and agencies | 348 | 267 | | | | | 206 | 176 | | | 554 | 443 |
| Equity in self-supported Crown corporations and agencies | 2,139 | 2,048 | 2,070 | 1,242 | 172 | 143 | | | | | 4,396 | 3,448 |
| Loans, advances and mortgages receivable | 94 | 68 | 4 | 4 | | 1 | 211 | 192 | (44) | (17) | 992 | 951 |
| Other investments | 467 | 452 | | | 76 | 76 | | | (10) | (10) | 2,510 | 2,243 |
| Sinking fund investments | | | | | 406 | 414 | | | (462) | (639) | 3,798 | 4,059 |
| Loans for purchase of assets, recoverable from agencies | | | | | | | | | (3,092) | (3,092) | 7,170 | 6,916 |
| | 4,348 | 3,838 | 2,234 | 1,391 | 806 | 743 | 2,154 | 1,860 | (3,753) | (4,305) | 26,585 | 25,260 |

# Summary Financial Statements
## Consolidated Statement of Financial Position by Sector—Continued
## as at March 31, 2007

In Millions

| | Health | | Education | | Social Services | | Debt Servicing[1] | | Other[2] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Liabilities** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 1,910 | 2,009 | 978 | 995 | 144 | 204 | 628 | 695 | 266 | 257 |
| Due to other governments | 65 | 55 | 23 | 13 | | | | | 81 | 45 |
| Due to Crown corporations, agencies and trust funds | 8 | | 2 | | | | | | 76 | 102 |
| Due to the Province of British Columbia | 17 | 4 | 9 | 1 | | 1 | | | 8 | 3 |
| Deferred revenue | 1,670 | 1,854 | 1,303 | 1,139 | | 62 | 181 | 174 | 108 | 149 |
| Employee pension plans | | | | | | | | | | |
| Taxpayer–supported debt | 228 | 204 | 715 | 672 | 12 | 5 | 27,018 | 28,947 | 251 | 619 |
| Self–supported debt | | | | | | | 7,897 | 7,758 | | |
| | 3,898 | 4,126 | 3,030 | 2,820 | 156 | 272 | 35,724 | 37,574 | 790 | 1,175 |
| Net assets (liabilities) | (2,802) | (2,734) | 1,513 | 1,499 | (59) | (163) | (21,088) | (22,386) | (366) | (450) |
| **Non–financial Assets** | | | | | | | | | | |
| Tangible capital assets | 4,044 | 3,734 | 10,334 | 9,642 | 62 | 43 | | | 617 | 1,070 |
| Prepaid capital advances | | | 25 | 26 | | | | | | |
| Prepaid program costs | 161 | 152 | 22 | 21 | 3 | 3 | | | 13 | 29 |
| Other assets | 5 | 4 | 6 | 7 | | | 302 | 255 | 1 | |
| | 4,210 | 3,890 | 10,387 | 9,696 | 65 | 46 | 302 | 255 | 631 | 1,099 |
| **Accumulated surplus (deficit)** | **1,408** | **1,156** | **11,900** | **11,195** | **6** | **(117)** | **(20,786)** | **(22,131)** | **265** | **649** |

# Summary Financial Statements
## Consolidated Statement of Financial Position by Sector—Continued
## as at March 31, 2007

In Millions

| | Natural Resources and Economic Development | | Protection of Persons and Property | | Transportation | | General Government[3] | | Adjustments[4] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Liabilities** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 938 | 964 | 249 | 262 | 307 | 259 | 743 | 1,115 | (91) | (530) | 6,072 | 6,230 |
| Due to other governments | 2 | 3 | 69 | 56 | | | 675 | 741 | | | 915 | 913 |
| Due to Crown corporations, agencies and trust funds | 1 | | | | | | 29 | 42 | (11) | | 105 | 144 |
| Due to the Province of British Columbia | 1 | 1 | | | 4 | | | | (39) | (10) | 0 | 0 |
| Deferred revenue | 2,099 | 1,865 | 291 | 250 | 331 | 247 | 32 | | (29) | (46) | 5,986 | 5,694 |
| Employee pension plans | | | | | | | 2 | 2 | | | 2 | 2 |
| Taxpayer-supported debt | 428 | 328 | 7 | 5 | 3,748 | 3,205 | 36 | 43 | (3,602) | (3,739) | 28,841 | 30,289 |
| Self-supported debt | | | | | | | | | | | 7,897 | 7,758 |
| | 3,469 | 3,161 | 616 | 573 | 4,390 | 3,711 | 1,517 | 1,943 | (3,772) | (4,325) | 49,818 | 51,030 |
| Net assets (liabilities) | 879 | 677 | 1,618 | 818 | (3,584) | (2,968) | 637 | (83) | 19 | 20 | (23,233) | (25,770) |
| **Non-financial Assets** | | | | | | | | | | | | |
| Tangible capital assets | 1,241 | 999 | 63 | 59 | 9,461 | 9,002 | 813 | 216 | (9) | (9) | 26,626 | 24,756 |
| Prepaid capital advances | | | | | | | | | (25) | (26) | 0 | 0 |
| Prepaid program costs | 344 | 303 | 3 | 1 | 8 | 9 | 38 | 14 | | | 592 | 532 |
| Other assets | 4 | 11 | 14 | 18 | 22 | 22 | | | (3) | (2) | 351 | 315 |
| | 1,589 | 1,313 | 80 | 78 | 9,491 | 9,033 | 851 | 230 | (37) | (37) | 27,569 | 25,603 |
| **Accumulated surplus (deficit)** | **2,468** | **1,990** | **1,698** | **896** | **5,907** | **6,065** | **1,488** | **147** | **(18)** | **(17)** | **4,336** | **(167)** |

[1]Debt servicing represents the financial impacts of activities related to management of the public debt.
[2]Includes housing, recreation and culture, and other activities which cannot be allocated to the specific sectors.
[3]Includes the legislature, tax collection and administration, Canadian Health and Social Transfer and Equalization transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.
[4]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

# Summary Financial Statements
# Consolidated Statement of Operations by Sector
# for the Fiscal Year Ended March 31, 2007

In Millions

| | Health | | Education | | Social Services | | Debt Servicing[1] | | Other[2] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Revenue** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Taxation | | | | | | | | | 81 | 63 |
| Contributions from the federal government | 301 | 426 | 546 | 518 | 110 | 81 | | | 192 | 192 |
| Natural resources | | | | | | | | | | |
| Fees and licences | 1,783 | 1,728 | 1,082 | 1,032 | | | | | 24 | 20 |
| Miscellaneous | 668 | 612 | 1,266 | 1,056 | 32 | 25 | | 1 | 103 | 162 |
| Contributions from the provincial government/ self–supported Crown corporations and agencies | 17 | 363 | 349 | 252 | 7 | 36 | | | 66 | 364 |
| Investment income | 27 | 31 | 173 | 186 | 3 | 4 | 914 | 858 | 9 | 22 |
| **Total revenue** | 2,796 | 3,160 | 3,416 | 3,044 | 152 | 146 | 914 | 859 | 475 | 823 |

# Summary Financial Statements
## Consolidated Statement of Operations by Sector—Continued
## for the Fiscal Year Ended March 31, 2007

In Millions

| | Natural Resources and Economic Development | | Protection of Persons and Property | | Transportation | | General Government[3] | | Adjustments[4] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Revenue** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Taxation | 31 | 28 | | | 466 | 463 | 17,440 | 15,875 | | | 18,018 | 16,429 |
| Contributions from the federal government | 93 | 60 | 85 | 105 | 26 | 26 | 5,033 | 4,417 | | | 6,386 | 5,825 |
| Natural resources | 3,982 | 4,567 | | | | | | | | | 3,982 | 4,567 |
| Fees and licences | 135 | 142 | 659 | 627 | 81 | 88 | 27 | 29 | | | 3,791 | 3,666 |
| Miscellaneous | 106 | 110 | 155 | 189 | 59 | 41 | 321 | 137 | (100) | (16) | 2,610 | 2,317 |
| Contributions from the provincial government/ self-supported Crown corporations and agencies | 443 | 298 | 381 | 191 | 47 | 49 | 1,850 | 1,715 | (475) | (1,048) | 2,685 | 2,220 |
| Investment income | 52 | 21 | 1 | 1 | 35 | 33 | 11 | 3 | (193) | (210) | 1,032 | 949 |
| **Total revenue** | 4,842 | 5,226 | 1,281 | 1,113 | 714 | 700 | 24,682 | 22,176 | (768) | (1,274) | 38,504 | 35,973 |

# Summary Financial Statements
## Consolidated Statement of Operations by Sector—Continued
## for the Fiscal Year Ended March 31, 2007

In Millions

| | Health | | Education | | Social Services | | Debt Servicing[1] | | Other[2] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Expense** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Salaries and benefits | 5,166 | 4,946 | 6,754 | 6,024 | 364 | 368 | | | 115 | 135 |
| Government transfers | 3,689 | 3,646 | 646 | 769 | 1,762 | 1,801 | | | 979 | 762 |
| Operating costs | 4,020 | 3,814 | 1,683 | 1,611 | 774 | 655 | | | 148 | 444 |
| Interest | 10 | 7 | 36 | 48 | | | 2,181 | 2,140 | 16 | 40 |
| Amortization | 395 | 365 | 513 | 481 | 12 | 10 | | | 20 | 46 |
| Other | 147 | 205 | 207 | 199 | 21 | (1) | | | 18 | 29 |
| **Operating expense** | 13,427 | 12,983 | 9,839 | 9,132 | 2,933 | 2,833 | 2,181 | 2,140 | 1,296 | 1,456 |
| **Surplus (deficit) for the Fiscal Year ended March 31** | (10,631) | (9,823) | (6,423) | (6,088) | (2,781) | (2,687) | (1,267) | (1,281) | (821) | (633) |

# Summary Financial Statements
## Consolidated Statement of Operations by Sector—Continued
## for the Fiscal Year Ended March 31, 2007

In Millions

| | Natural Resources and Economic Development | | Protection of Persons and Property | | Transportation | | General Government[1] | | Adjustments[4] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **Expense** | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Salaries and benefits | 510 | 485 | 552 | 532 | 127 | 123 | 338 | 309 | | | 13,926 | 12,922 |
| Government transfers | 293 | 520 | 523 | 602 | 73 | 70 | 273 | 479 | (429) | (640) | 7,809 | 8,009 |
| Operating costs | 768 | 588 | 241 | 262 | 666 | 631 | 236 | 204 | (9) | (297) | 8,527 | 7,912 |
| Interest | 1 | (4) | | | 184 | 160 | | | (194) | (210) | 2,234 | 2,181 |
| Amortization | 38 | 35 | 19 | 19 | 383 | 368 | 95 | 52 | | | 1,475 | 1,376 |
| Other | 79 | 58 | 15 | 18 | 32 | 24 | 94 | 78 | (136) | (127) | 477 | 483 |
| **Operating expense** | 1,689 | 1,682 | 1,350 | 1,433 | 1,465 | 1,376 | 1,036 | 1,122 | (768) | (1,274) | 34,448 | 32,883 |
| **Surplus (deficit) for the Fiscal Year ended March 31** | 3,153 | 3,544 | (69) | (320) | (751) | (676) | 23,646 | 21,054 | 0 | 0 | 4,056 | 3,090 |

[1]Debt servicing represents the financial impacts of activities related to management of the public debt.
[2]Includes housing, recreation and culture, and other activities which cannot be allocated to the specific sectors.
[3]Includes the legislature, tax collection and administration, Canadian Health and Social Transfer and Equalization transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.
[4]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

# Summary Financial Statements
# Statement of Financial Position
# for Self–supported Crown Corporations and Agencies
# as at March 31, 2007

In Millions

| | Utility[1] | Insurance[2] | Liquor[3] | Transportation[4] | Finance[5] | Economic Development[6] | 2007 Total | 2006 Total[7] |
|---|---|---|---|---|---|---|---|---|
| **Assets** | $ | $ | $ | $ | $ | $ | $ | $ |
| Cash and temporary investments | 79 | 9,045 | 5 | 235 | 108 | 2 | 9,474 | 8,381 |
| Accounts receivable | 526 | 1,034 | 34 | 4 | 82 | | 1,680 | 1,496 |
| Inventories | 137 | | 73 | 28 | 5 | | 243 | 241 |
| Long–term investments | 34 | 63 | | | | | 97 | 84 |
| Sinking fund investments | 733 | | | | | | 733 | 846 |
| Tangible capital assets | 10,760 | 77 | 43 | 301 | 120 | 18 | 11,319 | 10,901 |
| Other assets | 1,167 | 149 | 6 | 36 | 16 | | 1,374 | 1,227 |
| | 13,436 | 10,368 | 161 | 604 | 331 | 20 | 24,920 | 23,176 |
| **Liabilities** | | | | | | | | |
| Accounts payable | 1,202 | 6,682 | 159 | 150 | 125 | | 8,318 | 7,852 |
| Deferred revenue | 1,935 | 1,616 | | 282 | | 5 | 3,838 | 3,773 |
| Due to Province of BC | 348 | | | | 206 | | 554 | 443 |
| Debt due to Province of BC | 7,687 | | | | | | 7,687 | 7,526 |
| Other long–term debt | 125 | | 2 | | | | 127 | 134 |
| | 11,297 | 8,298 | 161 | 432 | 331 | 5 | 20,524 | 19,728 |
| **Equity** | | | | | | | | |
| Investment by the CRF | 296 | | | 107 | | | 403 | 403 |
| Other comprehensive income | | 447 | | | | | 447 | 0 |
| Unremitted earnings—end of year | 1,843 | 1,623 | | 65 | | 15 | 3,546 | 3,045 |
| | 2,139 | 2,070 | 0 | 172 | 0 | 15 | 4,396 | 3,448 |
| **Total Liabilities and Equity** | **13,436** | **10,368** | **161** | **604** | **331** | **20** | **24,920** | **23,176** |

[1] British Columbia Hydro and Power Authority, British Columbia Transmission Corporation, and Columbia Power Corporation.
[2] Insurance Corporation of British Columbia.
[3] British Columbia Liquor Distribution Branch.
[4] British Columbia Railway Company.
[5] British Columbia Lottery Corporation and BCIF Management Ltd.
[6] Provincial Capital Commission.
[7] British Columbia Railway Company made revisions to prior year accounting treatments. British Columbia Railway Company reclassified assets, liabilities, revenues, and expenses related to discontinued operations. Additionally, an asset impairment write-down and an amortization adjustment recognized by British Columbia Railway Company in 2005/06 were not required. These changes have resulted in assets increasing by $26 million, equity increasing by $26 million, revenues decreasing by $54 million, and expenses decreasing by $76 million for 2005/06. BC Hydro and Power Authority made a change to their presentation of unrealized gains and losses. This change has resulted in assets decreasing by $220 million and liabilities decreasing by $220 million for 2005/06. The Insurance Corporation of British Columbia made a change in presentation of bond repurchase obligations to conform with the current period presentation. This change has resulted in assets increasing by $783 million and liabilities increasing by $783 million for 2005/06.

# Summary Financial Statements
## Summary of Results of Operations and Statement of Equity for Self–supported Crown Corporations and Agencies for the Fiscal Year Ended March 31, 2007

In Millions

| | Utility[1] | Insurance[2] | Liquor[3] | Transportation[4] | Finance[5] | Economic Development[6] | 2007 Total | 2006 Total[8] |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | 4,422 | 3,890 | 2,440 | 53 | 2,427 | 3 | 13,235 | 12,936 |
| Expense | 3,998 | 3,509 | 1,600 | 24 | 1,416 | 3 | 10,550 | 10,716 |
| Net earnings of self–supported Crown corporations & agencies | 424 | 381 | 840 | 29 | 1,011 | 0 | 2,685 | 2,220 |
| Contributions paid to the CRF | (333) | | (840) | | (768) | | (1,941) | (1,727) |
| Adjustments to contributions[7] | | | | | (243) | | (243) | (213) |
| Increase(decrease) in unremitted earnings in self–supported Crown corporations & agencies | 91 | 381 | 0 | 29 | 0 | 0 | 501 | 280 |
| Unremitted earnings—beginning of year | 1,752 | 1,242 | | 10 | | 15 | 3,019 | 2,816 |
| Adjustments to unremitted earnings[8] | | | | 26 | | | 26 | (51) |
| Unremitted earnings—end of year | 1,843 | 1,623 | 0 | 65 | 0 | 15 | 3,546 | 3,045 |
| Investment by the CRF | 296 | | | 107 | | | 403 | 403 |
| Other comprehensive income | | 447 | | | | | 447 | 0 |
| **Equity in self–supported Crown corporations and agencies for the year** | 2,139 | 2,070 | 0 | 172 | 0 | 15 | 4,396 | 3,448 |

[1]British Columbia Hydro and Power Authority, British Columbia Transmission Corporation, and Columbia Power Corporation.
[2]Insurance Corporation of British Columbia.
[3]British Columbia Liquor Distribution Branch.
[4]British Columbia Railway Company.
[5]British Columbia Lottery Corporation and BCIF Management Ltd.
[6]Provincial Capital Commission.
[7]The adjustments are for British Columbia Lottery Corporation transfers to charities and local governments, which is shown as a recovery by the Consolidated Revenue Fund.
[8]British Columbia Railway Company made revisions to prior year accounting treatments. British Columbia Railway Company reclassified assets, liabilities, revenues, and expenses related to discontinued operations. Additionally, an asset impairment write-down and an amortization adjustment recognized by British Columbia Railway Company in 2005/06 were not required. These changes have resulted in assets increasing by $26 million, equity increasing by $26 million, revenues decreasing by $54 million, and expenses decreasing by $76 million for 2005/06. BC Hydro and Power Authority made a change to their presentation of unrealized gains and losses. This change has resulted in assets decreasing by $220 million and liabilities decreasing by $220 million for 2005/06. The Insurance Corporation of British Columbia made a change in presentation of bond repurchase obligations to conform with the current period presentation. This change has resulted in assets increasing by $783 million and liabilities increasing by $783 million for 2005/06.

# Summary Financial Statements
## Consolidated Statement of Tangible Capital Assets[1]
## for the Fiscal Year Ended March 31, 2007

| | In Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land and Land Improvements | Building | Highway Infrastructure | Transport – ation Equipment | Computer Hardware/ Software | Other[3] | 2007 Total | 2006 Total |
| **Historical Cost[2]** | $ | $ | $ | $ | $ | $ | $ | $ |
| Opening Cost | 2,254 | 17,248 | 11,810 | 2,695 | 1,879 | 4,773 | 40,659 | 38,128 |
| Additions | 197 | 1,366 | 819 | 13 | 372 | 599 | 3,366 | 3,101 |
| Disposals and valuation adjustments | 12 | (61) | (247) | (9) | (101) | (201) | (607) | (570) |
| | 2,463 | 18,553 | 12,382 | 2,699 | 2,150 | 5,171 | 43,418 | 40,659 |
| **Accumulated Amortization** | | | | | | | | |
| Opening balance | (155) | (6,031) | (4,883) | (674) | (1,102) | (3,058) | (15,903) | (14,909) |
| Amortization expense | (11) | (461) | (321) | (59) | (236) | (387) | (1,475) | (1,376) |
| Effect of disposals and valuation adjustments | 7 | 27 | 246 | 1 | 111 | 194 | 586 | 382 |
| | (159) | (6,465) | (4,958) | (732) | (1,227) | (3,251) | (16,792) | (15,903) |
| **Net book value for the year ended March 31, 2007** | **2,304** | **12,088** | **7,424** | **1,967** | **923** | **1,920** | **26,626** | |
| **Net book value for the year ended March 31, 2006** | **2,099** | **11,216** | **6,927** | **2,020** | **778** | **1,716** | | **24,756** |

[1] This statement includes assets that are held on capital leases at March 31, 2007 at a gross value of $435 million less accumulated amortization of $(121) million for a net book value totalling $314 million (2006: gross value of $292 million less accumulated amortization of $(110) million for a net book value of $182 million) comprised of: heavy equipment gross $90 million less accumulated amortization $(59) million for a net book value of $31 million (2006: gross $77 million less accumulated amortization $(48) million for a net book value of $29 million); vehicles gross $97 million less accumulated amortization $(42) million for a net book value of $55 million (2006: gross $91 million less accumulated amortization $(50) million for a net book value of $41 million); computer hardware/software gross $78 million less accumulated amortization $(18) million for a net book value of $60 million (2006: gross $15 million less accumulated amortization $(9) million for a net book value of $6 million); buildings gross $155 million less accumulated amortization $(1) million for a net book value of $154 million (2006: gross $97 million less accumulated amortization $(2) million for a net book value $95 million); ferries gross $7 million less accumulated amortization $(1) million for a net book value of $6 million (2006: gross $7 million less accumulated amortization $0 million for a net book value of $7 million) and other assets gross $8 million less accumulated amortization $0 million for a net book value of $8 million (2006: gross $5 million less accumulated amortization $(1) million for a net book value of $4 million).

[2] Historical cost includes work-in-progress at March 31, 2007 totalling $1,925 million (2006: $2,011 million) comprised of: buildings $1,711 million (2006: $1,331 million); land improvements $31 million (2006: $23 million); highway infrastructure $47 million (2006: $524 million); transportation equipment $4 million (2006: $4 million); computer hardware/software $132 million (2006: $126 million); and specialized equipment $0 million (2006: $3 million). Work-in-progress is not amortized. Work-in-progress includes capitalized interest expense at March 31, 2007 totalling $25 million (2006: $14 million).

[3] "Other" at net book value includes office furniture and equipment $509 million (2006: $469 million), vehicles $83 million (2006: $69 million), machinery $1,123 million (2006: $980 million) and miscellaneous $205 million (2006: $198 million).

# Summary Financial Statements
# Consolidated Statement of Guaranteed Debt[1]
# as at March 31, 2007

Guaranteed debt represents the debt of organizations that has been explicitly guaranteed or indemnified by the government under the authority of a statute as to net principal or redemption provisions. These organizations may include municipalities and other governments, private enterprises and individuals, minority interests of provincial Crown corporations and agencies, and SUCH[2] sector entities.

| | In Millions | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Maximum Guarantee Authorized $ | Net Outstanding[1] $ | Maximum Guarantee Authorized $ | Net Outstanding[1] $ |
| **Taxpayer–supported Guaranteed Debt** | | | | |
| Municipalities and other local governments: | | | | |
| *Municipal Act* debentures | | | 1 | 1 |
| Subtotal, municipalities and other local governments | 0 | 0 | 1 | 1 |
| Government services: | | | | |
| *Homeowner Protection Act* loan guarantees[3] | 375 | 75 | 375 | 79 |
| Subtotal, government services | 375 | 75 | 375 | 79 |
| Health and education: | | | | |
| *Financial Administration Act* student aid loans | 12 | 12 | 16 | 16 |
| Subtotal, health and education | 12 | 12 | 16 | 16 |
| Economic development: | | | | |
| *Financial Administration Act*: | | | | |
| Business Development Bank Guaranteed Program | 1 | 1 | 1 | 1 |
| Credit Enhancement Emergency Fund Guaranteed Program | 1 | 1 | 1 | 1 |
| Farm Distress Operating Loan Program | | | 1 | 1 |
| Feeder Association's Loan Guarantee Program | 10 | 2 | 10 | 4 |
| *Home Mortgage Assistance Program Act* mortgages | 10 | 7 | 9 | 6 |
| *Home Mortgage Assistance Program Act* second mortgages[4] | 1 | | 1 | 1 |
| Subtotal, economic development | 23 | 11 | 23 | 14 |
| Total taxpayer–supported guaranteed debt | 410 | 98 | 415 | 110 |
| **Self–supported Guaranteed Debt** | | | | |
| Total self-supported guaranteed debt[5] | 10 | 10 | 10 | 10 |
| Grand total, all guaranteed debt | 420 | 108 | 425 | 120 |
| Provision for probable payout | | (4) | | (9) |
| **Net total, all guaranteed debt** | **420** | **104** | **425** | **111** |

[1] Guaranteed debt includes gross principal debt less sinking fund balances of $1 million (2006: $1 million) and represents the total amount of contingent liability of the government arising from relevant guarantees.

[2] School districts, universities, colleges and health organizations.

[3] Homeowner Protection Act loan guarantees include indemnities provided to CMHC for any claims made on reconstruction loans made to homeowners for repairs to homes with premature building envelope failure.

[4] The British Columbia Second Mortgage Program was sold to the Bank of Montreal in June 1989, with the condition that the province will buy back any mortgages which may become uncollectible in future years.

[5] The government has unconditionally guaranteed the payment of principal and interest for $10 million (2006: $10 million) of debentures issued to the Canada Pension Plan Investment Fund that matures on August 9, 2024 with a coupon rate of 5.54%.

# Appendix D: Office of the Auditor General: 2007/2008 Reports Issued to Date

Report 1 – April 2007

Special Audit Report to the Speaker: The Financial Framework Supporting the Legislative Assembly

Report 2 – June 2007

The Child and Youth Mental Health Plan: A Promising Start to Meeting an Urgent Need

Report 3 – October 2007

A Review of the Vancouver Convention Centre Expansion Project: Governance and Risk Management

Report 4 – December 2007

Follow-up of 2004/2005 Report 3: Preventing and Managing Diabetes in British Columbia

Report 5 – January 2008

Preventing Fatalities and Serious Injuries in B.C. Forests: Progress Needed

Report 6 – February 2008

Literacy: Creating the Conditions for Reading and Writing Success

Report 7 – March 2008

Improving Financial Reporting for British Columbians: Report on the 2006/07 Public Accounts

The above reports can be accessed through our website at http://www.bcauditor.com.

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